



INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED

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

Stock Code: 1398

2008 Interim Report

CONTENTS

Important Notice	2
Corporate Information	3
Financial Highlights	5
Chairman’s Statement	8
President’s Statement	10
Details of Changes in Share Capital and Shareholding of Substantial Shareholders	12
Directors, Supervisors, Senior Management and Basic Information on Employees	17
Discussion and Analysis	19
— Economic, Financial and Regulatory Environments	19
— Financial Statement Analysis	21
— Business Overview	42
— Risk Management	52
— Capital Management	63
— Outlook	64
Showing Great Love during the Time of Disaster	65
Significant Events	68
Unaudited Interim Condensed Consolidated Financial Statements	73
Definitions	160

Important Notice

The Board of Directors, the Board of Supervisors, directors, supervisors and senior management members of Industrial and Commercial Bank of China Limited undertake that the information in this report contains no false presentations, misleading statements or material omissions; and agree to assume individual and joint and several liabilities for the authenticity, accuracy and completeness of the information contained in this report.

The 2008 Interim Report of the Bank and the results announcement have been considered and approved at the 39th meeting of the first session of the Board of Directors on 21 August 2008. All directors were present at the meeting.

The 2008 interim financial statements prepared by the Bank in accordance with the Chinese Accounting Standards and the International Financial Reporting Standards have been reviewed by Ernst & Young Hua Ming and Ernst & Young in accordance with the Chinese and international standards on review engagements, respectively.

**The Board of Directors of
Industrial and Commercial Bank of China Limited**

21 August 2008

Mr. Jiang Jianqing, Legal Representative of the Bank, Mr. Yang Kaisheng, person in charge of the financial affairs of the Bank, and Mr. Shen Rujun, person in charge of the financial and accounting department of the Bank, hereby warrant and guarantee that the financial statements contained in the Interim Report are authentic and complete.

Corporate Information

Legal name in Chinese

中國工商銀行股份有限公司（“中國工商銀行”）

Legal name in English

INDUSTRIAL AND COMMERCIAL BANK OF
CHINA LIMITED (“ICBC”)

Legal representative

Jiang Jianqing

Registered address and office address

No.55 Fuxingmennei Avenue,
Xicheng District, Beijing,
People’s Republic of China
Postal code: 100032

Internet website: www.icbc.com.cn
www.icbc-ltd.com

Principal place of business in Hong Kong

ICBC Tower, 3 Garden Road, Central, Hong Kong

Authorized representatives

Yang Kaisheng, Gu Shu

Secretary to the Board

Gu Shu

Contact address: No. 55 Fuxingmennei Avenue,
Xicheng District, Beijing,
People’s Republic of China

Telephone: 86-10-66108608

Facsimile: 86-10-66106139

E-mail: ir@icbc.com.cn

Qualified accountant

Yeung Manhin

Website designated by China Securities Regulatory Commission for publication of the interim report in respect of A shares

www.sse.com.cn

Website of The Stock Exchange of Hong Kong Limited for publication of the interim report in respect of H shares

www.hkexnews.hk

Legal advisors

Mainland China

King & Wood Law Firm
40/F, Office Tower A, Beijing Fortune Plaza,
7 East 3rd Ring Middle Road, Chaoyang District,
Beijing, PRC

Hong Kong, China

Linklaters
10/F, Alexandra House, Chater Road, Central,
Hong Kong

Share Registrars

A Share

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

H Share

Computershare Hong Kong Investor Services Limited
1806–1807, 18/F, Hopewell Center,
183 Queen's Road East, Wanchai, Hong Kong

Place where copies of this Interim Report are kept

Office of the Board of Directors of the Bank

Place where shares are listed, stock name and stock code

A Share

Shanghai Stock Exchange
Stock name: 工商銀行
Stock code: 601398

H Share

The Stock Exchange of Hong Kong Limited
Stock name: ICBC
Stock code: 1398

Other relevant information of the Bank

Date of change of registration: 3 April 2007
Registration authority: State Administration for Industry and Commerce, People's Republic of China
Corporate business license number: 1000001000396
Financial license institution number: B0001H111000001
Tax registration certificate number: Jing Shui Zheng Zi 110102100003962
Organizational Code: 10000396-2

Name and address of Auditors

Domestic auditors

Ernst & Young Hua Ming
Level 16, Ernst & Young Tower (Tower E3),
Oriental Plaza, No.1 East Chang An Avenue,
Dongcheng District, Beijing, PRC

International auditors

Ernst & Young
18/F, Two International Finance Centre,
8 Finance Street, Central, Hong Kong

This report is prepared in both Chinese and English languages; in case of any discrepancy between the Chinese version and the English version, the Chinese version shall prevail.

Financial Highlights

(Financial data and indicators in this Interim Report are prepared in accordance with IFRSs and, unless otherwise specified, are consolidated amounts of the Bank and its subsidiaries and denominated in Renminbi.)

Financial Data

	January– June 2008	January– June 2007	January– December 2007
Operating Results (in RMB millions)			
Net interest income	131,785	102,209	224,465
Net fee and commission income ⁽¹⁾	24,480	16,537	38,359
Operating income ⁽¹⁾	154,956	117,589	257,428
Allowance for impairment losses	18,315	15,401	37,406
Operating expenses ⁽¹⁾	53,193	43,592	104,660
Operating profit	83,448	58,596	115,362
Profit before tax	84,411	58,603	115,378
Profit after tax	64,879	41,390	82,254
Net profit attributable to equity holders of the parent company	64,531	41,036	81,520
Net cash flow generated from operating activities	196,132	300,979	296,129
Per share data (in RMB)			
Basic earnings per share	0.19	0.12	0.24
Diluted earnings per share	0.19	0.12	0.24
Net cash flow per share from operating activities	0.59	0.90	0.89
	30 June 2008	31 December 2007	31 December 2006
Balance sheet items (in RMB millions)			
Total assets	9,399,384	8,683,712	7,508,751
Total loans and advances to customers	4,355,365	4,073,229	3,631,171
Allowance for impairment losses on loans and advances	122,047	115,687	97,193
Investment in securities, net	3,193,753	3,107,328	2,860,798
Total liabilities	8,845,618	8,140,036	7,037,750
Due to customers	7,538,748	6,898,413	6,326,390
Due to banks and other financial institutions	867,292	805,174	400,318
Equity attributable to equity holders of the parent company	549,431	538,371	466,464
Net asset per share ⁽²⁾ (In RMB)	1.64	1.61	1.40
Net capital base	570,138	576,741	530,805
Net core capital base	472,708	484,085	462,019
Supplementary capital	107,767	94,648	69,650
Risk-weighted assets ⁽³⁾	4,575,361	4,405,345	3,779,170

Notes: (1) Please refer to "Note 43 to the Financial Statements: Comparative Amounts".

(2) Calculated by dividing equity attributable to equity holders of the parent company at the end of the reporting period by the number of shares issued at the end of the reporting period.

(3) Being risk-weighted assets and market risk capital adjustment. Please refer to "Discussion and Analysis — Capital Management".

Financial Indicators

	January– June 2008	January– June 2007	January– December 2007
Profitability (%)			
Return on average total assets ⁽¹⁾	1.44*	1.05*	1.02
Return on weighted average equity ⁽²⁾	22.80*	16.93*	16.23
Net interest spread ⁽³⁾	2.88*	2.54*	2.67
Net interest margin ⁽⁴⁾	3.01*	2.65*	2.80
Return on risk-weighted assets ⁽⁵⁾	2.89*	2.12*	2.01
Ratio of net fee and commission income to operating income	15.80	14.06	14.90
Cost-to-income ratio ⁽⁶⁾	28.46	31.43	35.02
	30 June 2008	31 December 2007	31 December 2006
Asset quality (%)			
Non-performing loan ratio ⁽⁷⁾	2.41	2.74	3.79
Allowance to non-performing loans ⁽⁸⁾	116.08	103.50	70.56
Total loan reserve ratio ⁽⁹⁾	2.80	2.84	2.68
Capital adequacy (%)			
Core capital adequacy ratio ⁽¹⁰⁾	10.33	10.99	12.23
Capital adequacy ratio ⁽¹⁰⁾	12.46	13.09	14.05
Total equity to total assets ratio	5.89	6.26	6.27
Risk-weighted assets to total assets ratio	48.68	50.73	50.33

Notes: * indicates annualized ratios.

- (1) Calculated by dividing the profit after tax by the average balance of total assets at the beginning and the end of the reporting period.
- (2) Calculated by dividing profit attributable to the equity holders of the parent company by the average balance of equity attributable to equity holders of the parent company, which is calculated in accordance with the "Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9: Computation and Disclosure of Return on Net Assets and Earnings Per Share" (2007 revision) issued by the CSRC.
- (3) Calculated by the spread between average yield on average balance of interest-generating assets and average cost on average balance of interest-bearing liabilities.
- (4) Calculated by dividing net interest income by average balance of interest-generating assets.
- (5) Calculated by dividing profit after tax by the average of risk-weighted assets and market risk capital adjustment at the beginning and the end of the reporting period.
- (6) Calculated by dividing operating expense (less business tax and surcharges) by operating income.
- (7) Calculated by dividing the balance of non-performing loans by total balance of loans and advances to customers.
- (8) Calculated by dividing the balance of allowance for impairment losses on loans and advances by total balance of non-performing loans.
- (9) Calculated by dividing the balance of allowance for impairment losses on loans and advances by total balance of loans and advances to customers.
- (10) Please refer to "Discussion and Analysis — Capital Management".

Other Financial Indicators

		Regulatory Criteria	30 June 2008	31 December 2007	31 December 2006
Liquidity ratio (%) ⁽²⁾	RMB	≥ 25.0	29.0	26.8	48.9
	Foreign currency	≥ 25.0	83.9	97.9	84.8
Loan-to-deposit ratio (%) ⁽³⁾	RMB and foreign currency	≤ 75.0	58.6	56.3	51.4
	RMB Borrowing Ratio ⁽⁴⁾		0.3	0.7	0.0
Borrowing and Lending Ratio (%)	RMB Lending Ratio ⁽⁵⁾		0.4	0.3	0.2
	Percentage of loans to single largest customer (%) ⁽⁶⁾	≤ 10.0	3.2	3.1	3.1
Percentage of loans to top 10 customers (%) ⁽⁷⁾			21.1	21.1	21.7

- Notes:
- (1) The regulatory ratios in the table are calculated in accordance with related regulatory requirements and accounting standards. The comparative figures are not restated.
 - (2) Calculated by dividing the balance of current assets by the balance of current liabilities. The liquidity ratios as at 30 June 2008 and 31 December 2007 are calculated in accordance with the "Circular Concerning the Formal Operation of the Off-site Regulatory Information System in 2007" issued by CBRC which narrowed the scope of current assets and current liabilities.
 - (3) Calculated by dividing loan balance by deposit balance. Deposits exclude fiscal deposits and outward remittance, and loans as of 31 December 2007 and 31 December 2006 exclude discounted bills.
 - (4) It represents the ratio for domestic branches, and is calculated by dividing RMB placements from banks and other financial institutions by RMB deposit balance.
 - (5) It represents the ratio for domestic branches, and is calculated by dividing net RMB placements with banks and other financial institutions by RMB deposit balance.
 - (6) Calculated by dividing loans to the single largest customer by net capital base.
 - (7) Calculated by dividing loans to the top ten customers in aggregate by net capital base.

Chairman's Statement

In the first half of 2008, the global banking industry experienced the most challenging period in the past few decades, suffering from drastic financial market turmoil and slowing global economy. China's economy maintained stable and relatively rapid growth and continued to provide a favorable environment for the banking industry, while the fundamental problems in economic activities and new situations and issues that have arisen recently, in particular the severe earthquake in Wenchuan, imposed direct or indirect impacts on operations of banks. The performance of banks attracts considerable market attention.

With the operating results of ICBC in the first half of 2008 reviewed by international certified public accountants, I am now pleased to inform shareholders, and those concerned about ICBC's operations, that the unfavorable economic factors in and outside China and the extraordinary severe natural disasters have not changed the Bank's fundamentals for stable and sound growth, with all business operations developing as planned. In the first half of 2008, the Group achieved a profit after tax of RMB64,879 million, an increase of 56.8% year on year. The earnings per share stood at RMB0.19. The annualized return on weighted average equity and the annualized return on average total assets were 22.80% and 1.44%, respectively, representing a growth of 5.87 and 0.39 percentage points. The cost/income ratio was controlled at a moderate 28.46%.

The Bank's continued rapid growth in profits during the current downward economic cycle and structural adjustments are driven by its operational transformation and business innovation in recent years, which means that the implementation of the transformation and innovation strategy enhances the Bank's capacity for sustainable development. Although the capital market adjustments have led to decreased income from intermediary business related to stock market in the first half of 2008, including funds sales agency, intermediary income of the Bank maintained its momentum of rapid growth due to continuous business innovation. In particular, conventional strong businesses such as settlement showed more pronounced growth potential, and the emerging businesses including credit card, e-banking, investment banking, and wealth management business grew at an accelerated rate, making a much larger contribution to the profits of the Bank. In the first half of 2008, non-interest income of the Bank increased 50.7% over the same period last year, accounting for 15.0% of operating income, an increase of 1.9 percentage points. New achievements were also made in diversified operations and international development of the Bank. Private banking services were launched for high net worth customers. ICBC International Capital Limited, a wholly-owned investment banking subsidiary of the Bank, was incorporated in Hong Kong. The follow-up work in respect of the acquisitions of Seng Heng Bank and Standard Bank was fully accomplished. The applications for establishing Doha branch, Sydney branch and ICBC Middle East were approved by local regulators, and the establishment of New York branch was also approved on 5 August. The formation of an inter-market and global operation network will definitely uplift the Bank's capacity for sustainable development.

The Bank always pursues corporate governance improvements as a fundamental task for the enhancement of market competitiveness and realization of sustainable development. In the first half of 2008, in accordance with domestic and overseas regulatory requirements, the Terms of Reference for the Audit Committee of the Board of Directors were further amended and the regulations on the annual reporting of independent directors were formulated. Strategic management was enhanced, and the annual work reporting system was established to cover eight aspects, namely, competitiveness, innovation, service, channel, brand, talents, corporate culture and social responsibility, constituting an effective mechanism for systematically promoting strategy implementation. The Bank's comprehensive risk management system was further improved and the Internal Rating-Based Approach (IRB) was applied extensively so that the risk measurement was progressively adapted to international practices and scientific and forward-looking risk management was significantly enhanced.

Changes were made to the Board of Supervisors and senior management of the Bank in the first half of 2008. At the 16th meeting of the first session of the Board of Supervisors held on 10 June, Mr. Wang Weiqiang resigned as supervisor and Chairman of the Board of Supervisors of the Bank due to age, and Mr. Zhao Lin was elected the new Chairman of the Board of Supervisors. During his service as Chairman of the Board of Supervisors of the Bank, Mr. Wang Weiqiang diligently performed his duties and played a significant role in improving corporate governance

and enhancing business management. Mr. Zhang Qu retired as Vice President of the Bank due to age. At the 35th meeting of the first session of the Board of Directors held on 7 May, Mr. Yi Huiman was appointed as Vice President, Mr. Pan Gongsheng resigned as Board Secretary, and Mr. Gu Shu was appointed as the new Board Secretary. Mr. Zhang Qu has been engaged in the business management of the Bank for a long time and has made significant contributions in areas under his supervision, including IT, e-banking, credit card and risk management. Mr. Pan Gongsheng has made fruitful efforts in the Bank's joint-stock reform, listing, corporate governance and strategic acquisitions. On behalf of the Board and all employees of the Bank, I would like to extend my respect and gratitude to these three colleagues. Mr. Zhao Lin has worked for many years in the financial sector and has extensive experience in business management. His joining will provide new experience to stimulate corporate governance improvement and rational growth of the Bank. Mr. Yi Huiman and Mr. Gu Shu have served ICBC for a long time and are highly skilled in their fields. I believe they will play a greater role in the reform and growth of the Bank.

The Bank always maintains a harmonious balance between economic responsibility and social responsibility, striving to create values for shareholders while building the image of a responsible large bank in economic and social development. In proactive response to the severe earthquake in Wenchuan, Sichuan Province, all the ICBC staff were dedicated to operations including rescue, property protection, business resumption, financial support and donation. The employee casualties and property losses were minimized with banking operations resumed quickly. Efficient, high-quality and comprehensive financial services were provided for quake relief and recovery efforts. In the first half of 2008, the Bank extended about RMB9,760 million of loans related to quake relief and recovery and donated over RMB120 million to the affected areas, of which RMB88.69 million was donated by employees of the Bank.

The Bank continued the "Green Credit" program in the first half of 2008. Relevant policies were improved to meet environmental requirements and loans were managed based on the categories of the borrowers' environmental protection level. The Bank also released the first corporate social responsibility report to demonstrate its efforts in fulfilling its social responsibility.

Strong performance and strengthened operations promoted the market image and reputation of the Bank. The Bank was once again honored with "Best Bank in China", "Deal of the Year", "Best Retail Bank in China" and "Best Cash Management Bank in China" by *Global Finance*, *The Banker*, *The Asian Banker* and *The Asset*. The Bank was also rated among the "Top 500 Financial Brands", "Top 100 Most Powerful Brands", "Top 100 Listed Companies" and "Top 10 Listed Companies in Social Corporate Responsibility", with relatively high rankings. Despite sharp corrections in the A share stock market of China and the impact on H share market from the turbulence in international capital market, the market capitalization of the Bank stood at USD238.4 billion as at 30 June, and the Bank remained as the world's largest bank by market capitalization.

The strong growth momentum in the first half of 2008 lays a solid foundation for successful fulfillment of our annual business plan, and makes it possible to accomplish the strategic plan for our first three-year development after the joint-stock reform, ahead of the plan or better than expected. We are currently reviewing our experience in the first three years since our joint-stock reform and are planning our development in the coming three years with a forward-looking and global outlook. We aim to become the most profitable, most excellent and most respected bank in the world. ICBC has the confidence and capability to face all challenges in the changing economic environment, and expects to have a fruitful future growth.



Chairman: Jiang Jianqing

21 August 2008

President's Statement

The economic and financial environment at home and abroad experienced fundamental changes in the first half of 2008. In response to challenges and during its development in pursuit of transformation, the overall development of the Bank showed "5 Continued" pronounced characteristics.

Continued high growth of operating results. In the first half of 2008, the Bank continued its momentum of rapid growth seen in the past five years, with profit after tax of the Group increased by RMB23,489 million or 56.8% year on year to RMB64,879 million. Growth was recorded for all business lines, of which net interest income increased by 28.9% year on year to RMB131,785 million and non-interest income climbed 50.7% year on year to RMB23,171 million. The growth rate of net fee and commission income was 19.1 percentage points higher than that of net interest income. The improved operation structure was a key catalyst for continued rapid growth of the Bank's profit.

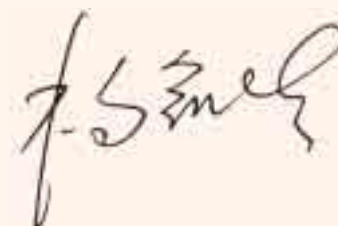
Continued enhancement of market competitiveness. The deposit business grew stably in fierce competition. The increase in total amounts due to customers and due to banks and other financial institutions reached RMB715,134 million or 9.4%. The income from intermediary business maintained its top position in the industry. The strengths in settlement, agency and other conventional business lines were further consolidated. In response to capital market changes, the Bank sped up its development of wealth management business, achieving an issue volume of RMB831.3 billion, 5.4 times that for the same period last year. The number and consumption of bank cards issued were 217 million and RMB380.2 billion, respectively, of which the credit cards issued exceeded 33 million in number and RMB110 billion in consumption, strengthening the Bank's leading position. E-banking reported a trading volume of RMB68 trillion, an increase of 58.5% year on year and far ahead of other banks in China. Off-counter businesses accounted for 39.5% of the Bank's total business volume, up 2.3 percentage points. The assets in custody amounted to RMB1.2 trillion, maintaining the leading position in the industry. Income from investment banking services has become a major component of intermediary income. RMB8.0 billion of credit-related asset securitization products were issued, which was a record high in the domestic market. The Bank also ranked first in the underwriting of commercial papers and mid-term notes. Financial leasing business and full-license annuity business have given the Bank a first-mover's position in the domestic market.

Continued stable and sound development of credit business. Pursuing prudent credit policies and adhering to the State's macro-economic policies and inherent requirements of transformation, the Bank controlled credit growth rationally, focused on credit restructuring, and raised return on credit business by developing high-quality credit market through diverse channels and big volume business. RMB and foreign currency loans increased by RMB282,136 million or 6.9% in the first half of 2008. The Bank analyzed the macro-economic trends, improved sensitivity and predictability in credit risk prevention, and endeavored to control risks and maintain stable quality of credit business in the changing economic environment. The Bank adjusted credit policies for relevant industries and placed credit limit control over certain industries in a timely manner. Under the management guideline of giving equal emphasis to preventing and controlling both visible and invisible risks, the Bank accelerated recovery and disposal of non-performing loans (NPLs) and strengthened monitoring of and withdrawal from loans with potential risks. The NPL balance decreased by RMB6,638 million and the NPL ratio dropped by 0.33 percentage point to 2.41%.

Continued enhancement of basic work for risk management. The Bank proactively improved the comprehensive risk management system and proceeded faster with enhancing its capability of comprehensive risk management. The comprehensive risk management framework and reporting mechanism were further refined. Risk management assessment measures and risk limit management rules were developed. Results in Non-retail IRB System Projects were put into service and Retail IRB System Projects were completed. The establishment of the core system of market risk management was expedited and advanced measurement approaches (AMA) projects for operational risks commenced. The measurement standard of three major risks maintained a leading position in the banking industry. The Bank pursued persistently the principle of prudent provision and made sufficient provisions in strict accordance with accounting standards, in order to maintain a strong capability to offset risks. At the end of June, the allowance to NPLs increased by 12.58 percentage points to 116.08%. The Bank held a small number of bonds related to US sub-prime mortgage loans, and provisions set aside fully covered the risk of bond impairment.

Continued improvement in customer service. The Bank emphasized the significance of customer services in its development strategy. The Bank highlighted the concepts of "customer oriented" and "services create value" and continuously improved customer experience. In addition to re-engineering of the personal banking process last year, optimization of corporate banking process was launched this year, and inter-region centralized processing of business, remote authorization and supervision center pilot reform were commenced, thereby continuously enhancing customer service efficiency and intensifying management capability. Adapting to increasing demands for diverse services, the Bank leveraged advanced IT platform to step up product innovation and rolled out almost 200 new products on a cumulative basis. Further efforts were made in construction of business outlets, with outlets upgraded and service mode reformed. At the end of June, there were nearly 2,000 VIP service centers and wealth management centers. Private banking services were launched in March for high net worth customers. Improvements were also made in service functionality of many general outlets. The building of account manager teams was strengthened. The Bank has the largest number of Associate Financial Planners (AFP) and Certified Financial Planners (CFP) in the industry, and the account manager team that provides off-premises marketing services is growing quickly.

2008 is set to be an extraordinary year. In response to various challenges in the second half of the year, the Bank will continue to promote operation transformation and business innovation and further enhance market competitiveness and risk control capability, with a view to maintaining the momentum of stable and sound development in all business lines and rewarding investors with handsome performance.



President: Yang Kaisheng

21 August 2008

Details of Changes in Share Capital and Shareholding of Substantial Shareholders

Changes in Share Capital

DETAILS OF CHANGES IN SHARE CAPITAL

Unit: Share

	As at 31 December 2007		Increase/decrease in the reporting period (+, -)	As at 30 June 2008	
	Number of Shares	Percentage (%)	Expiration of the Lock-up Period	Number of Shares	Percentage (%)
I. Shares subject to restriction on sales	277,183,845,026	83.0	-2,884,610,000	274,299,235,026	82.1
1. State-owned shares	236,012,348,064	70.7	0	236,012,348,064	70.7
2. Shares held by other domestic investors	16,986,759,559	5.1	-2,884,610,000	14,102,149,559	4.2
3. Shares held by foreign investors	24,184,737,403	7.2	0	24,184,737,403	7.2
II. Shares not subject to restriction on sales	56,835,005,000	17.0	2,884,610,000	59,719,615,000	17.9
1. RMB-denominated ordinary shares	12,065,390,000	3.6	2,884,610,000	14,950,000,000	4.5
2. Foreign shares listed overseas	44,769,615,000	13.4	0	44,769,615,000	13.4
III. Total number of shares	334,018,850,026	100.0	0	334,018,850,026	100.0

- Notes:
- (1) Please refer to the table headed "Details of Changes in the Shares subject to Restriction on Sales" for detailed information on changes in share capital during the reporting period.
 - (2) For the purpose of this table, "State-owned shares" specifically refer to the shares held by MOF and Huijin. "Shares held by other domestic investors" refer to the shares held by SSF and A share strategic investors. "Shares held by foreign investors" refer to the shares held by overseas strategic investors, including Goldman Sachs, Allianz and American Express. "Foreign shares listed overseas", namely H shares, are within the same meaning as defined in "No. 5 Standards on the Content and Format of Information Disclosure of Companies with Public Offerings — Content and Format of the Report of Change in Corporate Shareholding" of CSRC (Revised in 2007).
 - (3) Shares subject to restriction on sales refer to shares held by shareholders who are subject to restriction on sales in accordance with laws, regulations and rules or undertakings.

DETAILS OF CHANGES IN THE SHARES SUBJECT TO RESTRICTION ON SALES

Unit: Share

Name of shareholders	Number of shares subject to restriction on sales at the beginning of the period	Number of shares released from restriction on sales during the period	Increase in the number of shares subject to restriction on sales during the period	Number of shares subject to restriction on sales at the end of the period	Reason for restriction on sales	Date on which shares become tradable
A share strategic investors	2,884,610,000	2,884,610,000	0	0	Issuance of shares subject to restriction on sales	27 April 2008
Total	2,884,610,000	2,884,610,000	0	0	—	—

DATES ON WHICH SHARES SUBJECT TO RESTRICTION ON SALES BECOME TRADABLE

Unit: Share

Date	Number of shares tradable at the expiration of the lock-up period	Outstanding number of shares subject to restriction on sales	Outstanding number of shares not subject to restriction on sales	Remarks
28 April 2009	12,092,368,700	262,206,866,326	59,719,615,000	Goldman Sachs, Allianz, American Express
29 June 2009	7,051,074,779	255,155,791,547	71,811,983,700	SSF
20 October 2009	19,143,443,483	236,012,348,064	78,863,058,479	Goldman Sachs, Allianz, American Express, SSF
27 October 2009	236,012,348,064	0	98,006,501,962	A shares held by MOF and Huijin

The A shares held by MOF and Huijin will not be subject to the above-mentioned lock-up period after receiving approval of conversion into H shares from relevant authorities.

PARTICULARS OF HOLDERS OF SHARES SUBJECT TO RESTRICTION ON SALES

Unit: Share

No.	Name of holders of shares subject to restriction on sales	Type of shares	Shares subject to restriction on sales	Date on which shares become tradable	Number of additional tradable shares
1	MOF	A share	118,006,174,032	27 October 2009	118,006,174,032
2	Huijin	A share	118,006,174,032	27 October 2009	118,006,174,032
3	Goldman Sachs	H share	16,476,014,155	28 April 2009 20 October 2009	8,238,007,077 8,238,007,078
4	SSF	H share	14,102,149,559	29 June 2009 20 October 2009	7,051,074,779 7,051,074,780
5	DRESDNER BANK LUXEMBOURG S.A. ⁽¹⁾	H share	6,432,601,015	28 April 2009 20 October 2009	3,216,300,507 3,216,300,508
6	American Express	H share	1,276,122,233	28 April 2009 20 October 2009	638,061,116 638,061,117

Note: (1) DRESDNER BANK LUXEMBOURG S.A. is a wholly owned subsidiary of Allianz, through which Allianz holds the shares of the Bank.

Number of Shareholders and Particulars of Shareholding of Substantial Shareholders
Number of shareholders

As at the end of the reporting period, the Bank had a total number of 1,670,411 shareholders, including 176,453 holders of H shares and 1,493,958 holders of A shares.

Particulars of shareholding of the top 10 shareholders of the Bank (based on the number of shares set out in the Bank's register of shareholders maintained at the H share registrar)

NUMBER OF SHAREHOLDERS AND PARTICULARS OF SHAREHOLDING

Unit: Share

Total number of shareholders 1,670,411 (Holders of A shares and H shares registered as at 30 June 2008)

Particulars of shareholding of the top 10 shareholders (The following data is based on the shareholders on the register of shareholders as at 30 June 2008)

Name of Shareholder	Nature of Shareholder	Type of shares	Shareholding percentage (%)	Total number of shares held	Number of shares subject to restriction on sales	Number of pledged or locked-up shares
MOF	State-owned shares	A share	35.3	118,006,174,032	118,006,174,032	None
Huijin	State-owned shares	A share	35.3	118,006,174,032	118,006,174,032	None
HKSCC NOMINEES LIMITED	Foreign investment	H share	13.2	44,225,344,208	0	Unknown
Goldman Sachs	Foreign investment	H share	4.9	16,476,014,155	16,476,014,155	Unknown
SSF	Shares held by other domestic entities	H share	4.2	14,102,149,559	14,102,149,559	Unknown
DRESDNER BANK LUXEMBOURG S.A. ⁽¹⁾	Foreign investment	H share	1.9	6,432,601,015	6,432,601,015	Unknown
American Express	Foreign investment	H share	0.4	1,276,122,233	1,276,122,233	Unknown
China Life Insurance (Group) Company — traditional — ordinary insurance products	Shares held by other domestic entities	A share	0.2	695,027,367	0	None
China Life Insurance Company Limited — traditional — ordinary insurance products — 005L — CT001 Hu	Shares held by other domestic entities	A share	0.2	648,476,278	0	None
China Huarong Asset Management Corporation	Shares held by other domestic entities	A share	0.1	480,769,000	0	None

Note: (1) DRESDNER BANK LUXEMBOURG S.A. is a wholly owned subsidiary of Allianz, through which Allianz holds the shares of the Bank.

China Life Insurance Company Limited is a subsidiary of China Life Insurance (Group) Company. Save and except as the aforesaid, the Bank is not aware of any connections between the above shareholders or whether they are parties acting in concert.

Particulars of shareholding of the top 10 shareholders not subject to restriction on sales (the following data is based on the register of shareholders as of 30 June 2008)

Unit: Share

Name of shareholder	Shares not subject to restriction on sales	Type of shares
HKSCC Nominees Limited	44,225,344,208	H share
China Life Insurance (Group) Company — traditional — ordinary insurance products	695,027,367	A share
China Life Insurance Company Limited — traditional — ordinary insurance products — 005L — CT001 Hu	648,476,278	A share
China Huarong Asset Management Corporation	480,769,000	A share
China Pacific Life Insurance Company Limited — traditional — ordinary insurance products	296,497,961	A share
China Huaneng Group	249,500,000	A share
China Life Insurance Company Limited — dividend distribution — personal dividend — 005L — FH002 Hu	216,980,607	A share
E-Fund 50 Index Securities Investment Fund	215,074,397	A share
Boshi Theme Industry Stock Fund	202,999,801	A share
Fortune SGAM Industry Selected Shares Securities Investment Fund	184,026,777	A share

China Life Insurance Company Limited is a subsidiary of China Life Insurance (Group) Company. Save and except as the aforesaid, the Bank is not aware of any connections between the above shareholders or whether they are parties acting in concert.

Changes of the Substantial Shareholders and De Facto Controller of the Bank

During the reporting period, the Bank's substantial shareholders and the de facto controller remained unchanged.

Interests and Short Positions of Substantial Shareholders and Other Persons

Substantial shareholders and persons having interests or short positions that are disclosable pursuant to Divisions 2 and 3 of Part XV of the Hong Kong Securities and Futures Ordinance

As of 30 June, 2008, the Bank had been informed by the following persons that they 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:

HOLDERS OF A SHARES

Name of substantial shareholder	Capacity	Number of A Shares Held (Share)	Nature of Interest	Approximate Percentage of Issued A Shares (%)	Approximate Percentage of Total Issued Shares (%)
MOF	Beneficial owner	118,006,174,032	Long position	47.02	35.33
Huijin	Beneficial owner	118,006,174,032	Long position	47.02	35.33

HOLDERS OF H SHARES

Name of substantial shareholder	Capacity	Number of H Shares Held (Share)	Nature of Interest	Approximate Percentage of Issued H Shares (%)	Approximate Percentage of Total Issued Shares (%)
SSF ⁽¹⁾	Beneficial owner	16,597,455,559	Long position	19.98	4.97
Goldman Sachs ⁽²⁾	Beneficial owner	16,476,014,155	Long position		
	Interest of controlled corporations	369,101,477	Long position		
	Total	16,845,115,632		20.28	5.04
Allianz ⁽³⁾	Interest of controlled corporations	7,336,585,122	Long position	8.83	2.20
	Interest of controlled corporations	696,401,107	Short position	0.84	0.21

- Notes:
- (1) According to the register of shareholders as of 30 June 2008, SSF held 14,102,149,559 shares in the Bank.
 - (2) According to the register of shareholders as of 30 June 2008, Goldman Sachs held 16,476,014,155 shares in the Bank.
 - (3) According to the register of shareholders as of 30 June 2008, DRESDNER BANK LUXEMBOURG S.A. (a wholly owned subsidiary of Allianz, through which Allianz holds the shares of the Bank) held 6,432,601,015 shares in the Bank.

Directors, Supervisors, Senior Management and Basic Information on Employees

Brief Particulars of Directors, Supervisors and Senior Management

The Board of Directors of the Bank comprises 15 directors, including four executive directors, namely Mr. Jiang Jianqing, Mr. Yang Kaisheng, Mr. Zhang Furong and Mr. Niu Ximing; seven non-executive directors, namely Mr. Fu Zhongjun, Mr. Kang Xuejun, Mr. Song Zhigang, Mr. Wang Wenyan, Ms. Zhao Haiying, Mr. Zhong Jian'an and Mr. Christopher A. Cole; and four independent non-executive directors, namely Mr. Leung Kam Chung, Antony, Mr. John L. Thornton, Mr. Qian Yingyi and Mr. Xu Shanda.

The Board of Supervisors of the Bank consists of five members, including two supervisors representing the shareholders, namely Mr. Zhao Lin and Ms. Wang Chixi; two external supervisors, namely Mr. Wang Daocheng and Mr. Miao Gengshu; and an employee supervisor Mr. Zhang Wei.

The senior management of the Bank consists of nine members, Mr. Yang Kaisheng, Mr. Zhang Furong, Mr. Niu Ximing, Ms. Wang Lili, Mr. Li Xiaopeng, Mr. Liu Lixian, Mr. Yi Huiman, Mr. Wei Guoxiong and Mr. Gu Shu.

During the reporting period, the Bank did not implement share incentives, and none of the incumbent directors, supervisors, and members of the senior management held shares, share options, or were granted restricted shares of the Bank, which remained unchanged during the reporting period.

Appointment and Removal

There were no changes in the incumbent directors of the Bank during the reporting period.

During the reporting period, one supervisor was elected by the first session of the Board of Supervisors of the Bank, and one supervisor resigned.

A resolution was passed at the 2007 Annual General Meeting held on 5 June 2008 to appoint Mr. Zhao Lin as a supervisor of the Bank, with effect from the date of the approval at the Annual General Meeting. A resolution was passed at the 16th meeting of the first session of the Board of Supervisors held on 10 June 2008 to appoint Mr. Zhao Lin as the Chairman of the Board of Supervisors of the Bank.

According to relevant requirements and his age, Mr. Wang Weiqiang tendered his resignation from his positions of Supervisor and Chairman of the Board of Supervisors at the 16th meeting of the first session of the Board of Supervisors. The resignation took effect on 10 June 2008.

A resolution was passed at the 35th meeting of the first session of the Board of Directors held on 7 May 2008 to appoint Mr. Yi Huiman as Vice President of the Bank, and his qualifications were approved by CBRC on 6 July 2008; Mr. Gu Shu was appointed as Board, Company Secretary and Authorised Representative of the Bank. The qualifications of Mr. Gu Shu as Board Secretary were approved by CBRC on 8 July 2008, and the qualifications in relation to his appointment as Company Secretary and Authorised Representative were approved by the SEHK on 14 May 2008.

Mr. Zhang Qu retired on 29 April 2008 due to his age, and no longer held the position as Vice President of the Bank. Mr. Pan Gongsheng has tendered his resignation from his positions as Board Secretary, Company Secretary and Authorised Representative due to personal reasons. His resignation took effect on 7 May 2008.

Basic Information on Employees

At the end of June 2008, the Bank had 380,285 employees¹, representing a decrease of 1,428 from the end of 2007. The Bank had 16,529 institutions with 16,403 domestic institutions, representing a decrease of 73 from the end of 2007, and 126 overseas institutions, representing an increase of 14 from the end of 2007.

The comprehensive reform on human resource management system was continuously deepened across the entire Bank; the Bank optimized the employee promotion and development mechanism and initiated the human resource management enhancement program for its overseas operations. The Bank earnestly implemented the Labor Contract Law and enhanced the labour management system on a comprehensive basis. The Bank steadily developed the professional post qualification training system and the pre-job training system for employees in accordance with its persistence in the strategy of running the Bank with talents. The Bank furthered the strategic training cooperation with Goldman Sachs and held “leadership” training sessions and offered lectures in relation to risk management for senior executives. The Bank also developed training sessions for middle-and senior-level executives in relation to the operation and management of modern commercial banks, and proactively promoted training programs for senior professional talent, business training sessions regarding new products and new services, as well as web-based training sessions.

¹ Does not include labour dispatched for services totaling 34,357 employees.

Discussion and Analysis

ECONOMIC, FINANCIAL AND REGULATORY ENVIRONMENTS

In the first half of 2008, global economic growth slowed down on the whole and the pressure of inflation went up. The US economy has slid towards stagflation, the Euro zone economy was exposed to increasing downturn risk, economic growth of Japan was facing huge challenges, and the emerging economies had increasing potential problems although they maintained the momentum of rapid growth. The macro-economic policies of these countries were facing greater challenges.

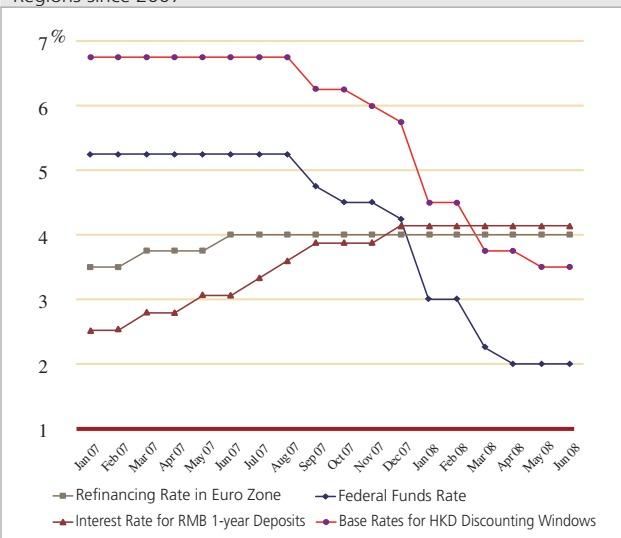
In the first half of 2008, the major stock indices of the world were very volatile, with all of the S&P 500 Index, the NASDAQ Composite Index and the Nikkei 225 Index dropping by over 10%. The international foreign exchange markets and bond markets were volatile, and the exchange rate of US dollar against Euro and Japanese Yen plunged steeply and then remained stable. The yield of US treasury bond slumped but then rebounded. In the context of tight supply and demand, speculations and weak US dollar, the international commodity markets saw price surges on the whole.

In the first half of 2008, China's economy maintained a rapid yet steady growth. Despite the successive major and enormous natural disasters and complicated international economic environment, China's economy was moving towards the expected direction of the macro-economic policies. GDP stood at RMB13.1 trillion with an increase of 10.4% over the same period last year, which was 1.8 percentage points lower than the growth rate in the first half of the previous year. Investments in fixed assets increased rapidly and steadily. Total investment in fixed assets reached RMB6.8 trillion with an increase of 26.3% over the same period last year, 0.4 percentage point higher than the growth rate in the first half of last year. Consumption continued to rise rapidly, and total retail sales of consumer goods amounted to RMB5.1 trillion with an increase of 21.4% over the same period last year, 6.0 percentage points higher than that in the first half of the previous year. The growth of exports slowed down, while that of imports accelerated. Imports and exports trade amounted to USD1,234.2 billion with an increase of 25.7% over the same period last year, 2.4 percentage points higher than the growth rate for the first half of the previous year, of which exports amounted to USD666.6 billion, up 21.9%, which was 5.7 percentage points lower than the first half of last year, and imports stood at USD567.6 billion, up 30.6%, which was 12.4 percentage points higher than the first half of last year. Trade surplus amounted to USD99.0 billion, representing a decrease of USD13.2 billion over the same period last year. The growth of consumer prices slowed down and producer prices grew at a higher rate. In the first half of 2008, the consumer price index (CPI) increased by 7.9% over the same period last year, 4.7 percentage points higher than the growth rate for the corresponding period last year. The CPIs of May and June dropped by 0.8 and 0.6 percentage point from the preceding month, respectively. The producer price index (PPI) rose by 7.6% over the same period last year, up 4.8 percentage points over the same period last year and 0.7 percentage point over the first quarter of 2008. The main challenges of economic operation include the tough global financial situation, various uncertainties in the world economic development, and the high inflationary pressure.

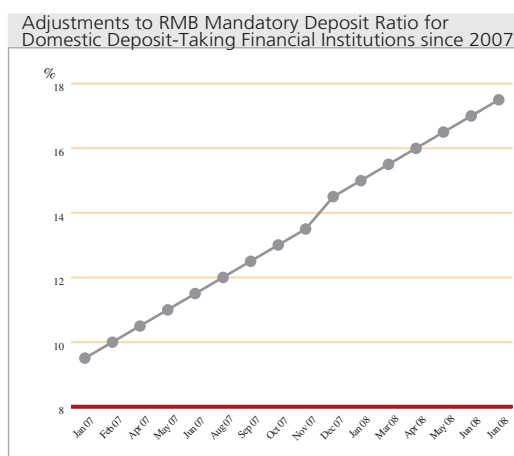
In the first half of 2008, PBOC implemented tighter monetary policy. PBOC took comprehensive measures to strengthen liquidity management of the banking system. In addition to the flexible open market operations, PBOC raised the RMB mandatory deposit reserve ratio for 5 times to 17.5%, an increase of 3 percentage points in aggregate.

At the end of June 2008, the mid exchange rate of RMB against US dollar was 6.8591, appreciated by 6.50% as compared to the end of previous year. Since the exchange rate reform in July 2005, the exchange rate of RMB against US dollar cumulatively appreciated by 20.66%.

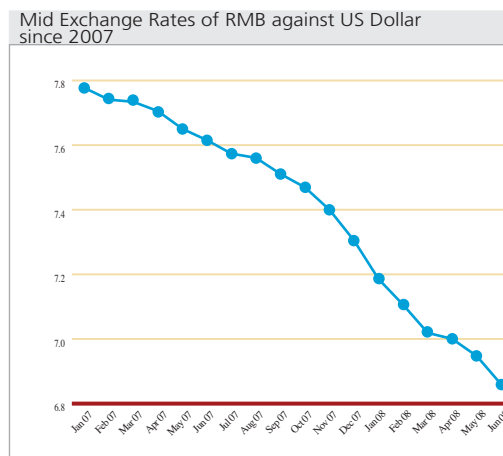
Changes in Interest Rates of Major Countries and Regions since 2007



Source: Bloomberg.



Source: PBOC.



Source: State Administration of Foreign Exchange.

The financial market remained stable and the growth of monetary credit slowed down. At the end of June 2008, the balance of money supply (M2) was RMB44.3 trillion, an increase of 17.4% over the same period last year, with the growth rate 0.6 percentage point higher than that at the end of 2007; the balance of narrow money supply (M1) supply was RMB15.5 trillion, an increase of 14.2% over the same period last year, with the growth rate of 6.9 percentage points lower than that at the end of 2007. The balance of domestic and foreign currency deposits in financial institutions amounted to RMB45.0 trillion, an increase of 17.8% over the same period last year, of which RMB deposits increased by 18.9% to RMB43.9 trillion. The balance of domestic and foreign currency loans in financial institutions amounted to RMB30.5 trillion, an increase of 15.2% over the same period last year, of which RMB loans increased by 14.1% to RMB28.6 trillion, with the growth rate of 2.0 percentage points lower than that at the end of 2007. China's foreign exchange reserve stood at USD1.8 trillion, with an increase of 35.7% over the same period last year. The money market was active, interest rates went up steadily, and the sources of market capital supply were diversified. Cumulative transactions volume in the inter-bank borrowing market reached RMB7.4 trillion, with an increase of 154.2% over the same period last year. The turnover of bond pledged repo transactions stood at RMB25.3 trillion, up 41.4% over the same period last year. The bond market remained stable on the whole, and the inter-bank bond index went up but then dropped back subsequently. Bonds issued in the inter-bank bond market stood at RMB997.6 billion, up 5.8% over the same period last year.

The stock market drifted lower on the whole as a result of various factors at home and abroad. Chinese enterprises raised RMB239.1 billion in the domestic and overseas stock markets through offerings, placements, rights issues and convertible bonds issuance, a decrease of 5.4% over the same period last year. The cumulative transaction volume on the Shanghai and Shenzhen stock markets reached RMB16.94 trillion and the average daily turnover reached RMB141.2 billion, a decrease of 30.4% over the same period last year. At the end of June 2008, the Shanghai Composite Index and the Shenzhen Composite Index were 2736 and 793 points, respectively, representing a decrease of 48.1% and 46.1% as compared to that at the end of 2007. There were 386 securities investment funds, an increase of 40 as compared to that at the end of 2007. The total net asset value of funds was RMB2,079.1 billion, a decrease of RMB1,197.1 billion or 36.5%. The demands for insurance products were strong, and the insurance industry recorded total premium from direct insurance contracts of RMB561.8 billion, up 51.1% over the same period last year, of which the concurrent-business insurance agencies, including banks, registered a premium revenue of RMB238.1 billion, up 118.3% over the same period last year, and accounted for 42.4% of the total premium revenue, an increase of 13.1 percentage points.

In the first half of 2008, Hunan, Guizhou, Jiangxi, Anhui and some other provinces were hit by a disastrous snowstorm, and later an earthquake with a magnitude of 8.0 hit Wenchuan County of Sichuan Province on 12 May, causing huge casualties and property losses in nine provinces and municipalities including Sichuan, Gansu, Shaanxi and Chongqing. Despite the fact that these natural disasters added to uncertainties in the economy, the economic fundamentals kept unchanged and the GDP growth stayed above 10%. The current international environment tends to be more complicated, the pressure of price hike is large, and economic and financial operations have increasing risks. However, driven by industrialization, urbanization, globalization, and upgrading of industrial and consumption structures, China still has strong motives for economic development. In the second half of this year, China's economy may continue its growth in the first half of 2008, and maintain the momentum of sound yet rapid development. The top priority is maintaining fast yet steady economic growth and controlling excessive price rises.

FINANCIAL STATEMENT ANALYSIS

Income Statement Analysis

In the first half of 2008, in response to the changes in the external operating environment, the Bank underwent business transformation, enhanced cost control with continuous optimization of income structure, and achieved continuous and rapid growth of profit after tax. Profit after tax reached RMB64,879 million, representing an increase of RMB23,489 million or 56.8% over the same period of the previous year. It was mainly due to an increase of RMB37,367 million or 31.8% in the operating income, higher than the increase of 22.0% in operating expense and 18.9% in allowance for impairment losses, of which, net interest income increased by 28.9% and the non-interest income surged by 50.7%. The application of new income tax rate also contributed to the remarkable increase in the profit after tax of the Bank.

CHANGES OF KEY INCOME STATEMENT ITEMS

In RMB millions, except for percentages

Item	January–June 2008	January–June 2007	Increase/ (decrease)	Growth rate (%)
Net interest income	131,785	102,209	29,576	28.9
Non-interest income	23,171	15,380	7,791	50.7
Operating income	154,956	117,589	37,367	31.8
Less: operating expenses	53,193	43,592	9,601	22.0
Less: allowance for impairment loss	18,315	15,401	2,914	18.9
Operating profit	83,448	58,596	24,852	42.4
Share of profits and losses of associates	963	7	956	13657.1
Profit before tax	84,411	58,603	25,808	44.0
Less: Income tax expense	19,532	17,213	2,319	13.5
Profit after tax	64,879	41,390	23,489	56.8
Attributable to: Equity holders of the parent company	64,531	41,036	23,495	57.3
Minority interests	348	354	(6)	-1.7

Net Interest Income

Net interest income contributed a significant part of the Bank's operating income. Net interest income reached RMB131,785 million in the first half of 2008, representing an increase of 28.9% over the same period in the previous year and accounted for 85.0% of the operating income. Interest income amounted to RMB215,011 million in aggregate, of which the interest income from loans and advances to customers, interest income from investment in securities and other interest income accounted for 69.0%, 24.0% and 7.0%, respectively.

The table below sets out the average balances of interest-generating assets and interest-bearing liabilities, interest income and expenses, and average yield and cost, respectively. The average yield and cost has been annualized.

In RMB millions, except for percentages

Item	January–June 2008			January–June 2007		
	Average balance	Interest income/expense	Average yield/cost (%)	Average balance	Interest income/expense	Average yield/cost (%)
Assets						
Loans and advances to customers	4,258,715	148,417	6.97	3,785,205	109,925	5.81
Investment in securities	3,119,784	51,524	3.30	2,947,633	42,821	2.91
Investment in securities not related to restructuring	2,093,017	40,056	3.83	1,896,767	30,969	3.27
Investment in securities related to restructuring ⁽²⁾	1,026,767	11,468	2.23	1,050,866	11,852	2.26
Due from central banks	1,142,757	10,390	1.82	731,125	6,397	1.75
Due from banks and other financial institutions ⁽³⁾	242,058	4,680	3.87	243,340	4,655	3.83
Total interest-generating assets	8,763,314	215,011	4.91	7,707,303	163,798	4.25
Allowance for impairment losses	(122,434)			(104,892)		
Non-interest-generating assets	452,587			349,099		
Total assets	9,093,467			7,951,510		
Liabilities						
Deposits	7,044,478	73,231	2.08	6,437,735	54,255	1.69
Due to banks and other financial institutions ⁽³⁾	1,103,026	9,378	1.70	722,411	6,761	1.87
Subordinated bonds	35,000	617	3.53	35,000	573	3.27
Total interest-bearing liabilities	8,182,504	83,226	2.03	7,195,146	61,589	1.71
Non-interest-bearing liabilities	211,354			232,843		
Total liabilities	8,393,858			7,427,989		
Net interest income		131,785			102,209	
Net interest spread			2.88			2.54
Net interest margin			3.01			2.65

Notes: (1) The average balances of interest-generating assets and interest-bearing liabilities represent the daily average balances. The average balances of non-interest-generating assets, non-interest-bearing liabilities and allowance for impairment losses represent the average balances as of the beginning and end of the reporting period.

(2) Investment in securities related to restructuring include Huarong bonds, special government bonds, MOF receivables and special PBOC bills. Please refer to "Note 21 to the Financial Statements: Financial Investments" for details.

(3) Due from banks and other financial institutions includes the amount of reverse repurchase agreements. Due to banks and other financial institutions includes the amount of repurchase agreements.

The table below indicates the changes in interest income and expense brought by changes in volume and interest rate, respectively.

In RMB millions

Item	Comparison between January–June 2008 and January–June 2007		
	Increase/(decrease) due to		Net increase/ (decrease)
	Volume	Interest rate	
Assets			
Loans and advances to customers	16,538	21,954	38,492
Investment in securities	3,550	5,153	8,703
Investment in securities not related to restructuring	3,776	5,311	9,087
Investment in securities related to restructuring	(226)	(158)	(384)
Due from central banks	3,737	256	3,993
Due from banks and other financial institutions	(24)	49	25
Changes in interest income	23,801	27,412	51,213
Liabilities			
Deposits	6,422	12,554	18,976
Due to banks and other financial institutions	3,231	(614)	2,617
Subordinated bonds	—	44	44
Changes in interest expense	9,653	11,984	21,637
Changes in net interest income	14,148	15,428	29,576

Note: Changes in volume are measured by changes in average balances, while changes in interest rate are measured by changes in average rates. Changes due to the combination of volume and interest rate have been allocated to the changes in volume.

Net Interest Spread and Net Interest Margin

In the first half of 2008, the return on assets has been further improved as a result of the Bank seizing market opportunities, proactively adjusting and optimizing the structure of assets, improving interest rate management and enhancing bargaining power in loan transactions in response to changes in the domestic and global economic environment. In addition, the Bank achieved further improvement in the profitability of its asset and liability operations by taking a variety of measures to expand its low-cost liability operations by promoting deposit and adjusting deposit mix, which effectively mitigated the negative impact from the cumulative effect of the tightened monetary policy. These enabled higher rise in the return on assets than in the cost of liability. The net interest spread and net interest margin stood at 2.88% and 3.01%, representing an increase of 34 and 36 basis points, respectively, as compared to the first half of the previous year, and an increase of 21 basis points for both indicators as compared to 2007.

Due to the re-pricing of loans, the enhancement in interest rate management and bargaining power plus the improvement in loan quality and loan mix, the average yield of loans to customers increased from 5.81% in the first half of 2007 to 6.97% in the first half of 2008. The upturn in the yield curve of Renminbi bond market and further optimization of the investment portfolio increased the average yield on investment in securities from 2.91% in the first half of 2007 to 3.30% in the first half year of 2008. As a result of the above, the average yield of interest-generating assets increased by 66 basis points to 4.91%. Due to the cumulative effect of interest rate rises and the increase of deposits and time deposit expansion caused by capital market volatility, the average cost of deposits from customers increased by 39 basis points from 1.69% in the first half of 2007 to 2.08% in the first half of 2008. However, the average cost of interest-bearing liabilities increased by 32 basis points to 2.03% as a result of the decrease in average cost of the amounts due to banks and other financial institutions by 17 basis points from 1.87% in the first half of 2007 to 1.70% in the first half of 2008, which partially offset the rise in the cost of deposits. As the growth in average yield on interest-generating assets far exceeded that of average cost of interest-bearing liabilities, the net interest spread and net interest margin further increased.

The table below summarizes the changes in yield on interest-generating assets, cost of interest-bearing liabilities, net interest spread and net interest margin:

Percentages

Item	January–June 2008	January–June 2007	January–December 2007
Yield of interest-generating assets	4.91	4.25	4.45
Cost of interest-bearing liabilities	2.03	1.71	1.78
Net interest spread	2.88	2.54	2.67
Net interest margin	3.01	2.65	2.80

Interest Income

Interest income amounted to RMB215,011 million, representing an increase of RMB51,213 million or 31.3% over the same period in the previous year. The aggregate growth of interest income from loans and advances to customers and investment in securities contributed to 92.2% of the total increase in interest income. The rise in interest income was mainly attributable to the increase in average balances and average yield of loans and advances to customers and investment in securities.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers contributed the majority of the Bank's interest income. The interest income from loans and advances to customers was RMB148,417 million in the first half of 2008, representing an increase of RMB38,492 million or 35.0%. Such growth is mainly attributable to the rise in the average yield of loans and advances to customers from 5.81% in the first half of 2007 to 6.97% in the first half of 2008 and the increase in average loan balance. The rise in average yield was mainly due to: (1) the cumulative effect of interest rate rises, i.e. 6 times benchmark interest rate hike for loans announced by PBOC during 2007, and the benchmark interest rate for one-year Renminbi loans increased by 1.35 percentage points from early 2007 to 7.47%, which was also the rate that was effective in early 2008; (2) the re-pricing of loans, i.e. the interest rates announced by PBOC in 2007 became effective for certain loans since 1 January 2008; (3) the continuous improvement in loan quality; and (4) improved management of loan interest rates and increased bargaining power of the Bank, which led to the moderate rise in loan floating rate margin. The average balance of loans and advances to customers increased by RMB473,510 million or 12.5% over the same period in the previous year.

ANALYSIS OF AVERAGE YIELD FROM LOANS AND ADVANCES TO CUSTOMERS BY BUSINESS LINES

In RMB millions, except for percentages

Item	January–June 2008			January–June 2007		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	3,094,302	108,880	7.04	2,646,437	80,942	6.12
Discounted bills	214,155	8,012	7.48	401,406	6,559	3.27
Personal loans	779,637	27,730	7.11	614,932	19,088	6.21
Overseas and others	170,621	3,795	4.45	122,430	3,336	5.45
Total loans and advances to customers	4,258,715	148,417	6.97	3,785,205	109,925	5.81

The interest income from corporate loans increased by 34.5% to RMB108,880 million, accounted for 73.4% of the total interest income from loans and advances to customers. It was attributable to the increase in average balance and the growth of average yield from 6.12% in the first half of 2007 to 7.04% in the first half of 2008. The increase of the average yield was mainly due to: (1) cumulative effect of interest rate rises; (2) re-pricing of loans; (3) continuous improvement in loan quality; and (4) improved management of loan interest rates and increased bargaining power.

The interest income from discounted bills rose by 22.2% to RMB8,012 million, due to the fact that the average yield increased from 3.27% in the first half of 2007 to 7.48% in the first half of 2008, but partially offset by the decline in the average balance of discounted bills. The average balance of discounted bills declined by RMB187,251 million to RMB214,155 million. The growth of average yield was mainly due to: (1) high discount interest rates in the market under the accumulative effect of the tightened monetary policy and other factors; and (2) the fact that the Bank enhanced the operation of discount and re-discount of bills, accelerated the turnover of discounted bills assets and drove up the yield of discounted bills assets. The decline in the average balance of discounted bills was mainly attributable to the reduction of discounted bills business to support other credit-related business.

The interest income from personal loans increased by 45.3% to RMB27,730 million, attributed to the increase in the average yield from 6.21% to 7.11% and the increase in average balance. The growth of the average yield was mainly due to: (1) cumulative effect of interest rate rises; and (2) re-pricing of loans.

The interest income from loan to customers from overseas operations and others increased by 13.8% to RMB3,795 million because the average balance of loans increased from RMB122,430 million in the first half of 2007 to RMB170,621 million in the first half of 2008, which was partially offset by the decline in average yield as a result of the decrease in LIBOR and HIBOR in the first half of 2008.

Interest Income from Investment in Securities

Interest income from investment in securities was the second largest component of the Bank's interest income. In the first half of 2008, interest income from investment in securities increased by RMB8,703 million or 20.3% to RMB51,524 million, of which interest income from investment in securities not related to restructuring increased by RMB9,087 million. This was because the average balance increased and the average yield rose from 3.27% in the first half of 2007 to 3.83%. Such growth of average yield was mainly due to: (1) the upward shift of yield curve in the Renminbi bond market led to a significant growth of return from new investments; (2) the 6 times benchmark interest rates hike announced by PBOC in 2007 resulted in a growth of bond yields that were set based on 1-year time deposit rate; (3) part of the low-yield bonds matured in the first half of 2008, while the reinvestment in Renminbi bonds generated a higher yields; and (4) the Bank adjusted investment strategy and optimized investment portfolio and currency composition in response to the macro-economic environment and the financial market trend. Interest income from investment in securities related to restructuring decreased by RMB384 million or 3.2%. This was because MOF settled debts of RMB21,270 million relating to the MOF receivables during the second half of 2007, thereby resulting in a decrease in the average balance.

Interest Income from Due from Central Banks

The amounts due from central banks principally included the mandatory reserve and excess reserve. The interest income from amounts due from central banks amounted to RMB10,390 million for the first half of 2008, representing an increase of RMB3,993 million or 62.4% as compared to the first half of 2007. It was attributable to: (1) the increase in the customer deposit balance and the rises in mandatory deposit reserve ratio by PBOC for 15 times since 2007, which led to the increase in average balance of amount due from central banks by RMB411,632 million or 56.3%; and (2) the increase in average yield from 1.75% in the first half of 2007 to 1.82% in the first half of 2008, which was mainly attributable to higher proportion of higher-yield mandatory reserve in the amounts due from central banks.

Interest Income from Due from Banks and Other Financial Institutions

Interest income from amounts due from banks and other financial institutions rose by RMB25 million or 0.5% to RMB4,680 million because the average yield increased from 3.83% in the first half of 2007 to 3.87% in the first half of 2008. The increase was partially offset by slight decrease in the average balance. Though the yield on the amounts due from banks dropped due to decrease in LIBOR and HIBOR, the Bank drove up the average yield on amounts due from banks and other financial institutions by 4 basis points by enhancing Renminbi reverse repo operations.

Interest Expense

Interest expense reached RMB83,226 million, representing an increase of 35.1% over the same period in the previous year. It was due to: (1) increase in the average cost of interest-bearing liabilities from 1.71% in 2007 to 2.03%, which resulted from the cumulative effect of hikes in inter-bank money market interest rate, time deposits, and tightening of market liquidity; and (2) increase in the average balance of interest-bearing liabilities by RMB987,358 million or 13.7%.

Interest Expense on Deposits

Deposits have been a major source of the Bank's funding. In the first half of 2008, interest expense on deposits reached RMB73,231 million, representing an increase of RMB18,976 million or 35.0% over the same period in the previous year, and accounted for 88.0% of the total interest expense. The growth was mainly due to an increase in the average balance of deposits and an increase in the average cost from 1.69% in the first half of 2007 to 2.08%. The rise in the average balance and average cost of deposits was primarily attributable to: (1) the cumulative effect of 6 times benchmark interest rates hike for time deposits announced by PBOC during 2007, of which the benchmark interest rate for one-year deposits increased by 1.62 percentage points to 4.14%; and (2) the increase in balances of savings deposits and time deposits as a result of volatile capital market.

ANALYSIS OF AVERAGE DEPOSIT COST BY PRODUCTS

In RMB millions, except for percentages

Item	January–June 2008			January–June 2007		
	Average balance	Interest Expense	Average cost (%)	Average balance	Interest Expense	Average cost (%)
Corporate deposits						
Time deposits	1,157,765	18,804	3.25	943,910	11,659	2.47
Demand deposits ⁽¹⁾	2,353,749	12,021	1.02	2,042,428	8,885	0.87
Sub-total	3,511,514	30,825	1.76	2,986,338	20,544	1.38
Personal deposits						
Time deposits	2,205,504	36,400	3.30	2,179,893	27,209	2.50
Demand deposits	1,178,440	4,250	0.72	1,159,748	4,175	0.72
Sub-total	3,383,944	40,650	2.40	3,339,641	31,384	1.88
Overseas deposits	149,020	1,756	2.36	111,756	2,327	4.16
Total deposits	7,044,478	73,231	2.08	6,437,735	54,255	1.69

Note: (1) Includes outward remittance and remittance payables.

Interest Expense on Due to Banks and Other Financial Institutions

The interest expense on due to banks and other financial institutions was RMB9,378 million, representing an increase of RMB2,617 million or 38.7% over the same period in the previous year. It was principally because the average balance increased by RMB380,615 million as compared to the first half of 2007. However, the increase was partially offset by the decrease in average interest cost on deposits by 17 basis points from 1.87% to 1.70%. The increase in average balance was mainly attributable to the increase in the amounts due to banks and other financial institutions. Although the growth of the amounts due to banks and other financial institutions slowed down due to adjustment in the capital market in the first half of 2008, the average balance increased remarkably due to capital market development, influx of funds in connection with Initial Public Offerings (IPOs) and the fact that the Bank expanded the third party depository services. The decrease in average cost of deposits was mainly due to: (1) the Bank's proactive efforts for taking low-cost liabilities, driving down the cost of due to banks and other financial institutions as compared to the first half of 2007; and (2) decline in the cost of repo liabilities driven by lower LIBOR in the first half of 2008.

Interest Expense on Subordinated Bonds

Interest expense on subordinated bonds increased by RMB44 million to RMB617 million, with the average interest cost increasing from 3.27% in the first half of 2007 to 3.53%. This was mainly because the coupon rate of some subordinated bonds issued by the Bank in 2005 was based on the 7-day weighted average repo rate in the inter-bank money market, which on average rose slightly from the previous year. Please see "Note 30 to the Financial Statements: Subordinated Bonds" for details about the subordinated bonds issued by the Bank.

Non-interest Income

Non-interest income contributed significant part to operating income of the Bank in the first half of 2008. Non-interest income reached RMB23,171 million, representing an increase of RMB7,791 million or 50.7% as compared to the first half of 2007. It accounted for 15.0% of the total operating income, increased by 1.9 percentage points.

COMPOSITION OF NON-INTEREST INCOME

In RMB millions, except for percentages

Item	January– June 2008	January– June 2007	Increase/ (decrease)	Growth rate (%)
Fee and commission income	25,470	17,210	8,260	48.0
Less: fee and commission expense	990	673	317	47.1
Net fee and commission income	24,480	16,537	7,943	48.0
Other non-interest related loss	(1,309)	(1,157)	(152)	N/A
Total	23,171	15,380	7,791	50.7

Net fee and commission income grew by 48.0% to RMB24,480 million and contributed to 15.80% of the operating income, representing an increase of 1.74 percentage points as compared to the first half of 2007. The growth indicated the achievements of the Bank's strategy on diversifying the revenue streams by implementing innovative services and developing intermediary businesses. In the first half of 2008, the income from funds agency decreased due to the capital market downturn, whereas the businesses of corporate wealth management, investment banking, asset custody, settlement, clearing and cash management, and guarantees and commitments maintained a rapid growth.

COMPOSITION OF NET FEE AND COMMISSION INCOME

In RMB millions, except for percentages

Item	January– June 2008	January– June 2007	Increase/ (decrease)	Growth rate (%)
Settlement, clearing and cash management	6,821	4,367	2,454	56.2
Personal wealth management and private banking	6,095	5,939	156	2.6
Investment banking	4,822	2,345	2,477	105.6
Bank card	3,197	2,477	720	29.1
Corporate wealth management	1,458	486	972	200.0
Asset custody	1,257	439	818	186.3
Guarantees and commitments	1,116	344	772	224.4
Payment agency and commission	406	319	87	27.3
Others	298	494	(196)	-39.7
Fee and commission income	25,470	17,210	8,260	48.0
Less: fee and commission expense	990	673	317	47.1
Net fee and commission income	24,480	16,537	7,943	48.0

Note: The Bank adjusted the grouping of fee and commission income items in 2008, and the new classification better reflected the different product lines of the Bank's fee and commission businesses and enabled a clearer presentation of the results of the Bank's fee and commission businesses.

The income from settlement, clearing and cash management business was RMB6,821 million, representing an increase of RMB2,454 million or 56.2%. The growth was primarily attributable to the increase in income from Renminbi settlement, international settlement and account management businesses.

The income from investment banking business increased by RMB2,477 million or 105.6% to RMB4,822 million, mainly due to the increase in income from investment and financing consultation business, regular financial advisory services and debt underwriting services.

The income from corporate wealth management services reached RMB1,458 million, representing an increase of RMB972 million or 200.0%. The growth was primarily attributable to the increase in the entrusted wealth management business brought by the rapid growth of corporate wealth management products.

The income from asset custody business increased by RMB818 million or 186.3% to RMB1,257 million, mainly due to the sharp increase in the size of assets in custody.

The income from guarantees and commitments business reached RMB1,116 million, representing an increase of RMB772 million or 224.4%, mainly due to the innovation of non-financing guarantees products and the increase in loan commitments.

The income from personal wealth management and private banking services slowly increased to RMB6,095 million. Although the downturn of capital market in the first half of 2008 drove down the income from retail funds agency business, income from personal wealth management products and insurance agency business increased remarkably due to the efforts in developing the range of wealth management products and services to accommodate the market needs.

OTHER NON-INTEREST RELATED LOSS

In RMB millions, except for percentages

Item	January– June 2008	January– June 2007	Increase/ (decrease)	Growth rate (%)
Net trading income	1,333	932	401	43.0
Net loss on financial assets and liabilities designated at fair value through profit or loss	(288)	(888)	600	N/A
Net gain/(loss) on financial investment	(869)	161	(1,030)	-639.8
Other operating loss, net	(1,485)	(1,362)	(123)	N/A
Total	(1,309)	(1,157)	(152)	N/A

The other non-interest related loss of RMB1,309 million was mainly attributable to accelerated appreciation of Renminbi in the first half of 2008, and net loss from foreign exchange and foreign exchange rate products stood at RMB2,832 million. The Bank effectively controlled foreign exchange exposure, thus curbed the growth of exchange loss.

Operating Expenses**OPERATING EXPENSES**

In RMB millions, except for percentages

Item	January– June 2008	January– June 2007	Increase/ (decrease)	Growth rate (%)
Staff costs	28,508	21,819	6,689	30.7
Premises and equipment expenses	6,513	6,899	(386)	-5.6
Amortization	638	577	61	10.6
Other administrative expenses	5,963	5,314	649	12.2
Business tax and surcharges	9,094	6,638	2,456	37.0
Others	2,477	2,345	132	5.6
Total	53,193	43,592	9,601	22.0

Operating expenses increased by RMB9,601 million or 22.0% to RMB53,193 million. Among these, staff cost increased by 30.7% to RMB28,508 million, which was in line with the increase in income, profits and other main operating indicators generally. Other administrative expenses increased by 12.2% to RMB5,963 million, demonstrating the Bank's strategy on pursuing profitability improvement by implementing stricter cost control, and improving operating efficiency.

Cost-to-income ratio continuously dropped by 2.97 percentage points to 28.46%.

Allowance for Impairment Losses

Allowance for impairment losses increased by RMB2,914 million or 18.9% to RMB18,315 million, of which, allowance for impairment losses on loans and advances to customers reached RMB13,648 million, representing a decrease of RMB1,121 million as compared to the first half of 2007. It was primarily attributable to continuous improvement of the loan quality of the Bank. Allowance for impairment losses on other assets amounted to RMB4,667 million, mainly representing the allowance for impairment losses on debt securities denominated in foreign currencies. Please refer to “Note 20 to the Financial Statements: Loans and Advances to Customers” and “Note 10 to the Financial Statements: Impairment Losses on Assets other than Loans and Advances to Customers” for details.

Income Tax Expense

Income tax expense increased by RMB2,319 million or 13.5% to RMB19,532 million, mainly due to the increase in profit before tax by RMB25,808 million or 44.0%. The effective tax rate dropped by 6.3 percentage points to 23.1%. The lower effective tax rate was mainly due to the application of the new income tax rate of 25% in accordance with the new income tax law from 2008 onwards. The fact that the effective tax rate was lower than the statutory rate was primarily because the interest income from the treasury bonds of China is tax free under the tax law. Please refer to “Note 11 to the Financial Statements: Income Tax Expense” for reconciliation of income tax expenses under statutory tax rate and the actual income tax expense.

Segment Information

The Bank’s principal business segments are corporate banking, personal banking and treasury operations. The Bank uses the Performance Value Management System (PVMS) to evaluate the performance of each business segment. The table below sets out the total operating income of each business segment of the Bank.

SUMMARY BUSINESS SEGMENT INFORMATION

In RMB millions, except for percentages

Item	January–June 2008		January–June 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate banking business	71,626	46.2	59,468	50.6
Personal banking business	51,690	33.4	39,198	33.3
Treasury operations	30,199	19.5	18,098	15.4
Others	1,441	0.9	825	0.7
Total operating income	154,956	100.0	117,589	100.0

For discussions on products and businesses in the aforesaid segments, please refer to “Discussion and Analysis — Business Overview”.

The table below sets out the Bank's total operating income of each geographical segment.

SUMMARY GEOGRAPHICAL SEGMENT INFORMATION

In RMB millions, except for percentages

Item	January–June 2008		January–June 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	16,650	10.7	15,885	13.5
Yangtze River Delta	36,285	23.4	25,953	22.1
Pearl River Delta	23,850	15.4	16,094	13.7
Bohai Rim	27,336	17.6	20,471	17.4
Central China	19,041	12.3	13,816	11.7
Northeastern China	7,543	4.9	6,482	5.5
Western China	21,159	13.7	16,072	13.7
Overseas and others	3,092	2.0	2,816	2.4
Total operating income	154,956	100.0	117,589	100.0

Note: Please see "Note 40 to the Financial Statements: Segment Information" for classification of geographic regions.

Focusing on the building of urban branches, the Bank gave top priority to the development of businesses in large- and medium-sized cities and reasonably adjusted the resource allocations among economic zones. The operating income of Yangtze River Delta, Pearl River Delta and Bohai Rim amounted to RMB87,471 million in aggregate and contributed to 56.4% of total operating income, up 39.9% over the same period last year. The operating income of Central China and Western China were RMB19,041 million and RMB21,159 million, an increase of 37.8% and 31.7% over the same period last year, respectively.

Analysis on Balance Sheet Items

In the first half of 2008, the Bank actively coped with changes in economic and financial situation at home and abroad by adjusting the internal fund transfer pricing, improving the structure of assets and liabilities, and pushing ahead the operational transformation. The Bank adhered to sound credit development strategies, improved various credit policies, adjusted loan distribution in an active manner, optimized loan structure, maintained moderate growth of loans, and enhanced loan quality. The Bank adjusted its investment strategy and portfolio and enhanced investment structure in response to changes in the financial market. In addition, the Bank took the opportunity of capital market adjustment, adopted several measures to optimize the structure of liabilities, encouraged the development of low-cost liability businesses, promoted customer deposits, led customers to reasonably adjust their allocation of financial assets, expanded sources of low-cost funds such as deposits from banks and other financial institutions, enhanced the money market operation, and promoted interactive and coordinative development of various liability businesses, thus ensuring the stable and continuous growth of funding sources.

Assets Deployment

As at the end of June 2008, total assets of the Bank amounted to RMB9,399,384 million, an increase of RMB715,672 million or 8.2% compared with the end of last year. Among the assets, total loans and advances to customers (collectively referred to as "loans") increased by RMB282,136 million or 6.9%; net investment in securities increased by RMB86,425 million or 2.8%; cash and balances with central banks rose by RMB342,176 million or 30.0%. In terms of asset structure, net loans accounted for 45.0% of the total assets, dropped by 0.6 percentage point compared with the end of 2007; net investment in securities accounted for 34.0%, down 1.8 percentage points; cash and balances with central banks accounted for 15.8%, up 2.7 percentage points; and other assets accounted for 2.8%, up 0.5 percentage point, mainly due to the acquisition of 20% shares of Standard Bank by the Bank, which was completed in March 2008.

ASSETS DEPLOYMENT

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Total loans and advances to customers	4,355,365	—	4,073,229	—
Less: allowance for impairment losses	122,047	—	115,687	—
Loans and advances to customers, net	4,233,318	45.0	3,957,542	45.6
Investment in securities, net	3,193,753	34.0	3,107,328	35.8
Of which: receivables	1,212,167	12.9	1,211,767	14.0
Cash and balances with central banks	1,484,522	15.8	1,142,346	13.1
Due from banks and other financial institutions, net	164,638	1.8	199,758	2.3
Reverse repurchase agreements	59,182	0.6	75,880	0.9
Others	263,971	2.8	200,858	2.3
Total assets	9,399,384	100.0	8,683,712	100.0

Loans

During the first half of 2008, the Bank actively coped with changes in economic and financial situation at home and abroad, adhered to sound credit policies, optimized allocation of credit resources, and proactively adjusted loan distribution, thus maintaining moderate growth of loans more reasonable distribution. At the end of June 2008, outstanding loans of the Bank were RMB4,355,365 million, an increase of RMB282,136 million or 6.9% over the end of last year, in which, RMB loans of domestic branches increased by RMB254,960 million or 6.8%, 2.6 percentage points lower than the RMB loan growth of all financial institutions.

DISTRIBUTION OF LOANS BY BUSINESS LINE

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Loans of domestic operations	4,154,940	95.4	3,919,209	96.2
Corporate loans	3,155,604	72.4	2,914,993	71.6
Discounted bills	198,208	4.6	252,103	6.2
Personal loans	801,128	18.4	752,113	18.4
Loans of overseas operations and others	200,425	4.6	154,020	3.8
Total	4,355,365	100.0	4,073,229	100.0

DISTRIBUTION OF CORPORATE LOANS BY MATURITY

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Short-term corporate loans	1,167,883	37.0	1,126,851	38.7
Medium to long-term corporate loans	1,987,721	63.0	1,788,142	61.3
Total	3,155,604	100.0	2,914,993	100.0

DISTRIBUTION OF CORPORATE LOANS BY PRODUCT

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Working capital loans	1,244,748	39.4	1,201,582	41.2
Project loans	1,577,745	50.0	1,414,000	48.5
Property development loans	333,111	10.6	299,411	10.3
Total	3,155,604	100.0	2,914,993	100.0

The balance of corporate loans increased by RMB240,611 million or 8.3%. In terms of maturity, short-term corporate loans increased by RMB41,032 million or 3.6% and medium to long-term corporate loans increased by RMB199,579 million or 11.2%. In terms of product type, project loans increased by RMB163,745 million or 11.6%, which was mainly due to the growth of high-quality medium to long-term project loans in basic industries and infrastructure development industries. Property development loans increased by RMB33,700 million or 11.3%, the increment of which decreased by RMB19,188 million over that of the same period last year, owing to the increase of granting residential housing development loans to value customers. Working capital loans increased by RMB43,166 million or 3.6% as a result of the growth in trade finance and loans to small enterprises.

The balance of discounted bills decreased by RMB53,895 million or 21.4%. The decrease was mainly because the Bank optimized the structure of credit products including discounted bills by taking into consideration the macro-economic situation and financial market trend, so as to accelerate the turnover of discounted bills and achieved balanced loan portfolio and profit targets.

DISTRIBUTION OF PERSONAL LOANS BY PRODUCT

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Personal housing loans	575,772	71.9	536,331	71.3
Personal consumption loans	96,452	12.0	91,066	12.1
Personal business loans	117,229	14.6	116,475	15.5
Credit card overdrafts	11,675	1.5	8,241	1.1
Total	801,128	100.0	752,113	100.0

Personal loans increased by RMB49,015 million or 6.5%, because the Bank actively optimized the structure of personal credit products, devoted credit resources to personal housing loans and controlled moderately the growth of personal business loans and personal consumption loans. Personal housing loans increased by RMB39,441 million or 7.4%; and credit card overdrafts increased by RMB3,434 million or 41.7%, as a result of the increase in the issuance volume and transaction volume of credit cards.

DISTRIBUTION OF LOANS BY GEOGRAPHIC REGION

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	147,044	3.4	172,490	4.2
Yangtze River Delta	1,100,229	25.3	1,040,412	25.6
Pearl River Delta	646,386	14.8	611,726	15.0
Bohai Rim	792,091	18.2	730,965	18.0
Central China	564,040	13.0	526,306	12.9
Northeastern China	237,130	5.4	224,675	5.5
Western China	668,020	15.3	612,635	15.0
Overseas operations and others	200,425	4.6	154,020	3.8
Total	4,355,365	100.0	4,073,229	100.0

The Bank continuously improved the geographical structure of credit assets to promote balanced development of loans in different regions. Loans of domestic branches were RMB4,154,940 million, up RMB235,731 million or 6.0% compared with the end of last year. Due to the decrease in discounted bills, loans of the Head Office decreased by RM25,446 million or 14.8%. The Bank continued to support the development of credit business in Yangtze River Delta, Pearl River Delta and Bohai Rim. Loans in these three regions increased by RMB155,603 million, accounted for 66.0% of the increment in new loans granted by domestic branches. Loans in Western China, Central China and Northeastern China jumped by 9.0%, 7.2% and 5.5%, respectively, as the Bank increased the allocation of credit resources to the three regions according to the State's strategic plan in developing the West Region, revitalizing old industry bases in Northeastern China and strategic directions for Central China, and the Bank granted loans to the Central and Western regions for snowstorm damage and earthquake relief in the first half of the year. Overseas and other loans increased by RMB46,405 million or 30.1%, due to the growth of trade finance business in overseas and the consolidation of Seng Heng Bank at the end of first quarter of 2008.

DISTRIBUTION OF DOMESTIC CORPORATE LOANS BY INDUSTRY

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Manufacturing	770,770	24.4	738,121	25.3
Chemicals	128,035	4.1	121,243	4.1
Machinery	104,566	3.3	95,709	3.3
Iron and steel	88,738	2.8	84,357	2.9
Metal processing	82,350	2.6	77,808	2.7
Textiles and apparels	80,366	2.5	79,112	2.7
Automobile	48,068	1.5	42,496	1.4
Electronics	40,111	1.3	43,181	1.5
Petroleum processing	39,745	1.3	35,761	1.2
Cement	31,791	1.0	30,963	1.1
Others	127,000	4.0	127,491	4.4
Transportation and logistics	655,872	20.8	602,103	20.7
Power generation and supply	459,843	14.6	404,873	13.9
Property development	338,684	10.7	303,984	10.4
Water, environment and public utility management	250,009	7.9	230,156	7.9
Retail, wholesale and catering	207,465	6.6	186,988	6.4
Leasing and commercial services	180,789	5.7	159,877	5.5
Science, education, culture and sanitation	72,340	2.3	69,742	2.4
Construction	60,687	1.9	52,639	1.8
Others	159,145	5.1	166,510	5.7
Total	3,155,604	100.0	2,914,993	100.0

In the first half of 2008, following the State's macro-economic policies control and industrial policy guidance, the Bank strengthened the guidance on industrial credit policies, proactively supported the growth of loans in energy, transportation and other major basic industries and infrastructure development industries, steadily developed property development loans, selectively supported manufacturing, logistics, emerging services and cultural industries, and applied "Green Credit" policies in an in-depth manner, thus continuously improved the industrial distribution of loans.

In terms of the incremental structure, loans to four industries including power generation and supply, transportation and logistics, property development and manufacturing grew most. The increment in loans for these industries accounted for 73.2% of total increment in domestic corporate loans. Loans to power generation and supply industry increased by RMB54,970 million or 13.6%, which was mainly due to the increase of loans to targeted customers in line with the Bank's credit policy towards power industry. Loans to the industry of transportation and logistics increased by RMB53,769 million or 8.9%, which was mainly due to the increase of loans to highway, transportation and other related sub-industries which were encouraged by the credit policy of the Bank. Loans to the property development industry increased by RMB34,700 million or 11.4%, which were mainly granted to high-quality customers with strong financial strength and good qualification. Loans to the manufacturing industry increased by RMB32,649 million or 4.4%, which was mainly due to the increase in loans to industries of machinery, chemicals, automobile, etc..

In terms of the industrial distribution of loan balance, the loans mainly concentrated in industries of manufacturing, transportation and logistics, power generation and supply, and property development, which accounted for 70.5% of all domestic corporate loans of the Bank.

DISTRIBUTION OF LOANS BY CURRENCY

At the end of June 2008, RMB loans reached RMB4,008,220 million, accounted for 92.0% of total outstanding loans and representing an increase of RMB263,051 million or 7.0% over the end of last year. Foreign currency loans were equivalent to RMB347,145 million, accounted for 8.0% of total loans and representing an increase of RMB19,085 million or 5.8%. Among these, US dollar loans were equivalent to RMB220,933 million, Hong Kong dollar loans were equivalent to RMB100,286 million and other foreign currency loans were equivalent to RMB25,926 million. The growth of foreign currency loans was primarily due to the rising in trade finance business and the consolidation of Seng Heng Bank.

DISTRIBUTION OF LOANS STRUCTURE BY REMAINING MATURITY

In RMB millions, except for percentages

Remaining maturity	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Overdue	109,816	2.5	98,646	2.4
Less than 1 year	1,826,865	41.9	1,772,141	43.5
1–5 years	1,152,051	26.5	1,073,224	26.4
Over 5 years	1,266,633	29.1	1,129,218	27.7
Total	4,355,365	100.0	4,073,229	100.0

Note: "Overdue" refers to loans whose principals or interests are overdue. For loans repaid by installments, only the amount which has matured but has not been repaid will be deemed as overdue.

At the end of June 2008, loans due in more than one year were RMB2,418,684 million, accounted for 55.6% of total loans; loans due in less than one year were RMB1,826,865 million, accounted for 41.9%, which primarily composed of corporate working capital loans and discounted bills; and overdue loans were RMB109,816 million, accounted for 2.5%.

For further analysis on the loans and quality of loans of the Bank, please refer to "Risk Management — Credit Risk".

Investment

At the end of June 2008, the net balance of investment in securities amounted to RMB3,193,753 million, an increase of RMB86,425 million or 2.8% over the end of the previous year.

INVESTMENT

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Investment in securities not related to restructuring	2,162,208	67.7	2,074,094	66.7
Investment in securities related to restructuring ⁽¹⁾	1,026,767	32.1	1,026,767	33.1
Equity instruments	4,778	0.2	6,467	0.2
Total	3,193,753	100.0	3,107,328	100.0

Note: (1) Includes Huarong bonds, special government bonds, MOF receivables and special PBOC bills. For details, please refer to "Note 21 to the Financial Statements: Financial Investments".

At the end of June 2008, the balance of investment in securities not related to restructuring amounted to RMB2,162,208 million, an increase of RMB88,114 million or 4.2% over the end of 2007. The slowing growth was due to the Bank's adjustment of investment strategies and portfolio and its optimization of investment structure in response to the financial market trend. The balance of investment in securities related to restructuring amounted to RMB1,026,767 million. Please refer to "Note 21 to the Financial Statements: Financial Investments" for details.

DISTRIBUTION OF INVESTMENT IN SECURITIES BY HOLDING PURPOSE

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Investments at fair value through profit or loss	43,739	1.4	34,321	1.1
Available-for-sale investments	589,426	18.4	531,155	17.1
Held-to-maturity investments	1,348,421	42.2	1,330,085	42.8
Receivables	1,212,167	38.0	1,211,767	39.0
Total	3,193,753	100.0	3,107,328	100.0

Available-for-sale investments increased by RMB58,271 million or 11.0% over the end of last year, accounted for 67.4% of the total increment of investment in securities; investments at fair value through profit or loss increased by RMB9,418 million or 27.4%; and held-to-maturity investments remained relatively stable.

DISTRIBUTION OF INVESTMENT IN SECURITIES NOT RELATED TO RESTRUCTURING BY ISSUER

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Government bonds	492,838	22.8	431,917	20.8
Policy bank bonds	622,839	28.8	554,311	26.7
Central bank bills	815,704	37.7	783,929	37.8
Other bonds	230,827	10.7	303,937	14.7
Total	2,162,208	100.0	2,074,094	100.0

DISTRIBUTION OF INVESTMENT IN SECURITIES NOT RELATED TO RESTRUCTURING BY REMAINING MATURITY

In RMB millions, except for percentages

Remaining maturity	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Less than 3 months	178,188	8.2	208,093	10.0
3–12 months	362,433	16.8	384,153	18.5
1–5 years	1,147,596	53.1	967,973	46.7
Over 5 years	473,991	21.9	513,875	24.8
Total	2,162,208	100.0	2,074,094	100.0

DISTRIBUTION OF INVESTMENT IN SECURITIES NOT RELATED TO RESTRUCTURING BY CURRENCY

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
RMB	1,975,404	91.3	1,863,203	89.9
USD	166,058	7.7	193,584	9.3
Other foreign currencies	20,746	1.0	17,307	0.8
Total	2,162,208	100.0	2,074,094	100.0

At the end of June 2008, the nominal value of bonds related to Freddie Mac and Fannie Mae, the US mortgage agencies, held by the Group totaled USD2,716 million, equivalent to 0.20% of the Group's total assets. Among these, bonds issued by Freddie Mac and Fannie Mae were USD465 million, equivalent to 0.03% of the Group's total assets, with credit ratings of AAA¹; the nominal value of mortgage-backed securities (MBSs) guaranteed by Freddie Mac and Fannie Mae was USD2,251 million, equivalent to 0.17% of the Group's total assets. Payment of the principal and interest of the above bonds is considered as normal at present.

The Group held Alt-A residential mortgage-backed securities, US sub-prime residential mortgage-backed securities and structured investment vehicles (SIVs) with nominal value totaling USD651 million, USD1,214 million and USD55 million, respectively. The nominal value of the above securities totaled USD1,920 million, equivalent to 0.14% of the Group's total assets. The Group has made cumulative allowance of USD702 million for impairment losses based on the valuation results and forward-looking consideration of the changes in market situation. The provision coverage (provisions/unrealized loss) and the provision ratio (provisions/nominal value) stood at 101.6% and 36.6%, respectively. The Group considered that the allowance for impairment losses of these assets had reflected the impact of the observable market condition as of the end of the reporting period, and will continue to closely monitor any further market development on an ongoing basis. Further details of investments are illustrated in the table below.

In USD100 millions, except for percentages

Item	Institution	Total nominal value	Proportion to total assets (%)	By credit rating			
				AAA	AA	A and below	Unrated
Alt-A residential mortgage-backed securities		6.51	0.05	6.51	—	—	—
Sub-prime residential mortgage-backed securities		12.14	0.09	0.82	2.76	8.56	—
Structured investment vehicles	Parent company	0.15	0.00	—	—	0.15	—
	ICBC (Asia)	0.40	0.00	—	—	0.33	0.07
Total		19.20	0.14	7.33	2.76	9.04	0.07

Liabilities

At the end of June 2008, the balance of total liabilities amounted to RMB8,845,618 million, an increase of RMB705,582 million or 8.7% over the end of last year. Among these, amounts due to customers and due to banks and other financial institutions reached RMB8,341,156 million, up RMB715,134 million or 9.4%.

¹ Refer to the rating provided by Standard & Poor's or other rating agencies.

LIABILITIES

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Due to customers	7,538,748	85.2	6,898,413	84.7
Due to banks and other financial institutions	867,292	9.8	805,174	9.9
Repurchase agreements	186,636	2.1	193,508	2.4
Subordinated bonds	35,000	0.4	35,000	0.4
Other liabilities	217,942	2.5	207,941	2.6
Total liabilities	8,845,618	100.0	8,140,036	100.0

Due to Customers

At the end of June 2008, the balance of due to customers reached RMB7,538,748 million, an increase of RMB640,335 million or 9.3% over the end of last year. Due to customers remained as a major source of funding and accounted for 85.2% of total liabilities. Affected by the stagnant capital market and cumulative effect of interest hikes policy, time deposits soared by RMB526,644 million, accounted for 82.2% of total increment in amount due to customers, with its proportion in total amount due to customers up 3.2 percentage points.

Corporate deposits increased by RMB287,198 million or 8.4% over the end of last year. Among these, corporate demand deposits increased by RMB37,329 million or 1.6%, and corporate time deposits increased by RMB249,869 million or 24.0%. The preference for liquidity of corporate customers was weakened continuously. As a result, the growth of corporate demand deposits slowed down but corporate time deposits grew rapidly.

Personal deposits rose by RMB347,995 million or 10.7% over the end of last year, of which, personal demand deposits increased by RMB71,220 million or 6.1%, and personal time deposits increased by RMB276,775 million or 13.4%. The Bank promoted the joint development of personal wealth management, third-party depository and deposit-taking businesses, and encouraged the flow of customer funds to savings deposits.

DISTRIBUTION OF DUE TO CUSTOMERS BY BUSINESS LINE

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate deposits				
Time deposits	1,289,722	17.1	1,039,853	15.1
Demand deposits	2,400,159	31.8	2,362,830	34.2
Sub-total	3,689,881	48.9	3,402,683	49.3
Personal deposits				
Time deposits	2,346,281	31.2	2,069,506	30.0
Demand deposits	1,245,788	16.5	1,174,568	17.0
Sub-total	3,592,069	47.7	3,244,074	47.0
Overseas	150,846	2.0	136,707	2.0
Others⁽¹⁾	105,952	1.4	114,949	1.7
Total	7,538,748	100.0	6,898,413	100.0

Note: (1) Mainly includes outward remittance and remittance payables.

DISTRIBUTION OF DUE TO CUSTOMERS BY GEOGRAPHIC REGION

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	190,327	2.5	141,033	2.0
Yangtze River Delta	1,570,994	20.8	1,422,829	20.6
Pearl River Delta	978,035	13.0	902,871	13.1
Bohai Rim	1,924,206	25.6	1,798,664	26.1
Central China	1,040,583	13.8	947,394	13.7
Northeastern China	541,680	7.2	516,389	7.5
Western China	1,142,077	15.1	1,032,526	15.0
Overseas	150,846	2.0	136,707	2.0
Total	7,538,748	100.0	6,898,413	100.0

DISTRIBUTION OF DUE TO CUSTOMERS BY REMAINING MATURITY

In RMB millions, except for percentages

Remaining maturity	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Demand deposits ⁽¹⁾	3,824,167	50.7	3,817,479	55.3
Less than 3 months	1,256,790	16.7	1,098,218	15.9
3–12 months	2,024,693	26.8	1,506,322	21.8
1–5 years	429,591	5.7	472,861	6.9
Over 5 years	3,507	0.1	3,533	0.1
Total	7,538,748	100.0	6,898,413	100.0

Note: (1) Includes time deposits payable on demand.

As of 30 June 2008, the balance of RMB deposits reached RMB7,243,704 million, representing an increase of RMB616,894 million or 9.3% over the end of last year, and accounted for 96.1% of the total amount due to customers. Foreign currency deposits were equivalent to RMB295,044 million, with an increase of RMB23,441 million over the end of last year, of which, USD deposits were equivalent to RMB162,146 million, up RMB21,676 million; HKD deposits were equivalent to RMB98,558 million; other foreign currency deposits were equivalent to RMB34,340 million.

Due to Banks and Other Financial Institutions

As of 30 June 2008, the amount due to banks and other financial institutions reached RMB867,292 million, representing an increase of RMB62,118 million or 7.7% compared to the end of last year and accounting for 9.8% of total liabilities, thus becoming a significant funding source of the Bank. The slow down in the growth of amount due to banks and other financial institutions was primarily due to the adjustment in capital market.

Shareholders' Equity

As of 30 June 2008, shareholders' equity was RMB553,766 million in total, representing an increase of RMB10,090 million or 1.9% compared to the end of last year, of which, equity attributable to equity holders of the parent company was RMB549,431 million, up RMB11,060 million or 2.1% as compared to the end of last year. Please refer to "Interim Financial Statements, Consolidated Statement of Changes in Equity" for details.

SHAREHOLDERS' EQUITY

In RMB millions

Item	At 30 June 2008	At 31 December 2007
Issued share capital	334,019	334,019
Reserves	149,250	158,204
Retained profits	66,162	46,148
Equity attributable to equity holders of the parent company	549,431	538,371
Minority interests	4,335	5,305
Total shareholders' equity	553,766	543,676

Other Financial Information

Reconciliation of Differences between Financial Statements Prepared under CASs and IFRSs

For detailed reconciliation of differences between financial statements prepared under CASs and IFRSs, please refer to "Unaudited Supplementary Financial Information: (a) Differences between the financial statements prepared under IFRSs and those prepared in accordance with CASs promulgated by the MOF".

BUSINESS OVERVIEW

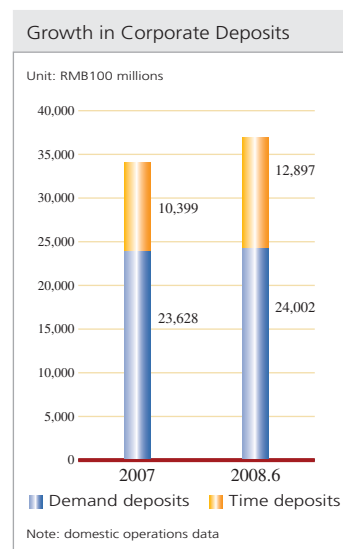
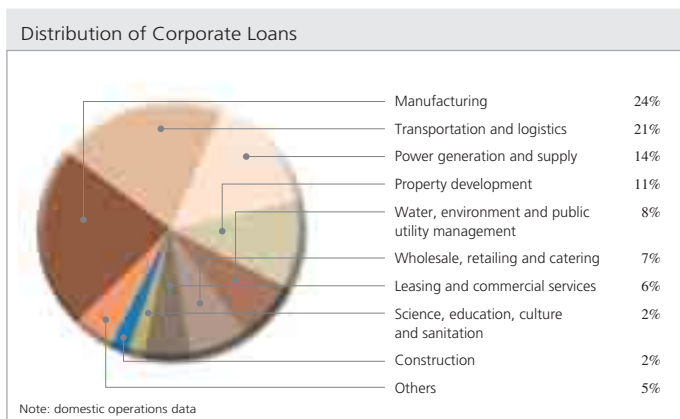
Corporate Banking

During the first half of 2008, the Bank proactively responded to the changes in business environments, seized every opportunity to expand its market share, further pushed forward the business transformation of corporate banking and improved its competitiveness of corporate banking service. It improved the products and services, promoted the structured financing and combined financial service schemes, shortened the response time to high-end customers, and further developed the market of high-end customers. The Bank improved the overall return of corporate banking by cutting down cost and enhancing the customer base. The Bank intensified the efforts in innovation of financial products, actively expanded non-credit business, and accelerated the development of investment banking, corporate wealth management, enterprise annuity, etc. As of 30 June 2008, the number of corporate banking customers reached 2.99 million (including 60,000 loan customers), representing an increase of 270,000 compared to the end of last year, thus continuously expanding the corporate customer base.

Corporate Deposits and Loans

Following the strategy of steady growth, optimized the structure and sustainable development in corporate loan business, the Bank reasonably controlled the rhythm of loan granting and actively provided support for the credit growth in key basic industries and infrastructure development industries such as energy and transportation in line with the State's industrial policy. The Bank implemented the "Green Credit" policy which managed and categorized corporate loans by their efforts in environmental protection. The Bank pursued balanced regional development, continued to allocate credit resources to Yangtze River Delta, Pearl River Delta and Bohai Rim, and supported the development of strategic markets in Northeastern region, Central region and Western region. The Bank accelerated the withdrawal from low-end customers in each industry and continuously optimized the structure of its clientele. As of 30 June 2008, the balance of domestic corporate loans was RMB3,155,604 million, representing an increase of 8.3% or RMB240,611 million compared to the end of previous year.

The Bank promoted the development of corporate cash management, corporate wealth management and asset custody, and attracted deposits from customers with diversified financial services. The Bank proactively participated in the bid for such projects as agency financial business and social security fund in order to expand the fund-raising channels and attract deposits from government agencies. As of 30 June 2008, the balance of domestic corporate deposits was RMB3,689,881 million, representing an increase of 8.4% or RMB287,198 million compared to the end of the previous year.



Small and Medium Enterprise Business

The Bank enhanced product innovation, established a featured brand, and promoted the development of banking services for small and medium enterprises. The Bank initiated the marketing of financial services package for small and medium enterprises in 2008. It promoted a full spectrum of financial services including e-banking, enterprise annuity, international settlement, bank card, agent for property and casualty insurance with a view to meeting the diversified demands of small and medium enterprises. The Bank promoted trade finance such as factoring and forfaiting, and developed purchase-sales chain financing products to reduce the financing costs for small and medium-sized enterprises. The Bank launched "Caizhi Financing", a financing brand for small and medium enterprises, with a view to improving its brand image. The Bank also appointed some sub-branches to provide quality and efficient financial services for small enterprises on a trial basis. The Bank won the title of "2007 Leading Financial Service Provider for Small Enterprises in China". As of 30 June 2008, there were 47,055 domestic small enterprise customers with a financing balance with the Bank, representing an increase of 2,092 compared to the end of previous year.

Institutional Banking

The Bank continued to improve the core competitiveness of institutional banking and expanded its leading edge in this field. The Bank carried out joint marketing activities with a number of insurance companies, launched new online insurance products, and the agency sales volume of insurance products increased by 227.8% over the same period of prior year. The Bank expanded the third party depository business. It established cooperation with 100 securities companies on third party depository services and had 15.5 million depository customers, and the customers' settlement fund reached RMB322 billion. The Bank established a centralized bank-futures transfer partnership with 106 futures companies. The Bank intensively prepared for the special settlement business of financial futures and developed cooperation with financial institutions over simulation transaction of financial futures. The Bank further expanded the correspondent bank network and the scope of business cooperation, with the number of correspondent banks increased by 7 to 80. The Bank promoted the marketing of business cards for non-profit organizations, and completed the contracting and card issuing with central budget units at primary levels and local budget units of these organizations. The Bank put into operation the "Online Taxation Service Platform" so as to build a one-stop service platform for tax payers.

Settlement and Cash Management

The Bank continued to improve the system of settlement and cash management products and expanded its customer base. The Bank launched the innovative Caizhi Account Card which provided more flexibility for payment and settlement business. The Bank enhanced regular payment and expenditure control functions of settlement accounts to meet personalized needs of customers. As at the end of June 2008, the number of corporate settlement accounts reached 3.53 million, representing an increase of 0.32 million compared to the end of the previous year. The volume of corporate RMB settlement business stood at RMB291 trillion, an increase of 38.6% compared to the same period of last year.

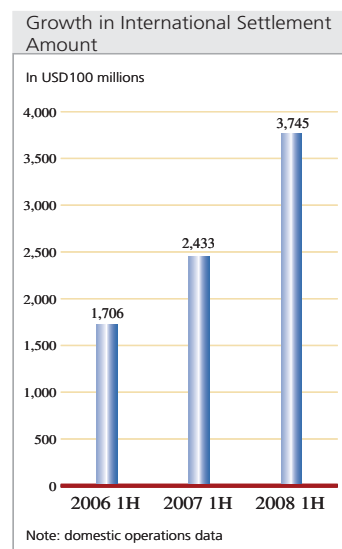
The Bank improved the functions of cash management products such as fund pool and information report, launched standardized cash management solutions for 11 industries, and assisted customers in building the cash management framework. The Bank provided cash management services for multinational corporations with a view to promoting cross-border cash management. Focusing on the "Caizhi Account" brand, the Bank strived to establish a professional cash management brand. The Bank won titles such as "Best Cash Management Bank in China" granted by *The Asset* and *FinanceAsia* for the second year consecutively. As at the end of June 2008, the number of cash management customers was 78,621, representing an increase of 20,058 or 34.3% compared to the end of last year.

Investment Banking

With the rapid development of investment banking, the Bank achieved substantial improvement in terms of product innovation and brand enhancement. The Bank took the opportunity of the strong demand for structured corporate financing and promoted extensively the consultation service for investment and financing. With regard to the hot issues of restructuring and merger and acquisition (M&A) of domestic industries, the Bank actively provided investment banking services for restructuring and M&A activities of the leading enterprises in China's iron & steel industry. The Bank strengthened the cooperation with overseas institutions and provided advice for cross-border restructuring and M&A. The Bank supported regional economic development and financial innovation, and provided consultation service in respect of Property Investment Fund for local government. The Bank conducted the certification for enterprise financial advisor and established an analyst team to improve the service of regular financial advisory. With rapid development in the underwriting of bonds, the Bank underwrote commercial papers of RMB38.6 billion and medium-term notes of RMB19.5 billion during the first half of 2008, ranking the first in the market. In the first half of 2008, the investment banking income was RMB4,822 million, representing an increase of 105.6% over the same period of last year.

International Settlement and Trade Finance

Taking full advantage of correspondent bank resources, the Bank launched the import refinance service and expanded the funding resources for international trade finance. The Bank provided guidance for customers in handling short-term trade finance and accelerated the fund turnover of trade finance business. With regard to the financing demands in each stage of the domestic trade chain, the Bank enhanced domestic trade finance products including domestic factoring and receivable financing, and launched new products such as commodity financing. In the first half of this year, domestic branches disbursed an aggregate of RMB182,383 million in trade finance, representing an increase of RMB93,582 million or 105.4% over the same period of last year, of which, the financing for international trade was USD19,953 million, representing an increase of 108.6%. Using its brand advantage, the Bank promoted combined marketing of trade finance and wealth management products to meet the customers' multiple demands on financing, settlement and wealth management, and to stimulate the growth of international settlement. The Bank boosted the centralized processing of international settlement documents and improved the business efficiency. In the first half of this year, the accumulated international settlement was USD374.5 billion, representing an increase of 53.9% over the same period of last year.



Asset Management

Asset Custody Services

The Bank adopted a different marketing strategy to promote the development of custody service for securities investment funds, insurance assets, enterprise annuity funds, payment account funds, and others. The number of securities investment funds under custody increased by 13 to 95, keeping the leading position among other banks. The Bank had strong tie with large-scale insurance companies and continued to keep its leading position in respect of custody service for insurance assets. The Bank successfully contracted with a number of large enterprise annuity custody institutions and further expanded its leading edge in the market. With the rapid development of custody service for payment account, the accumulated funds under custody exceeded RMB10 billion. The Bank was the first to launch the custody of separately managed account of fund companies, and developed a sound growth momentum in other custody services including trust assets and RMB wealth management. The Bank was awarded the "Best Domestic Custodian Bank in China" by domestic and overseas financial media including *The Asset*, *Global Custodian*, *Global Finance* and *Securities Times*. As of 30 June 2008, the net value of assets under custody reached RMB1.21 trillion.

Enterprise Annuity

Leveraging the competitive edge from its full range of licenses for enterprise annuity businesses and full-fledged service channels, the Bank enhanced its enterprise annuity fund management and maintained a leading position in the market. The Bank initiated the business of trusteeship management and achieved a material breakthrough. The Bank strengthened cooperation with other financial institutions, developed new enterprise annuity products and enriched the product line. As at the end of June 2008, the Bank provided annuity services for 14,258 enterprises, involving RMB2.8 billion of annuity fund under trusteeship; there were 4.34 million personal annuity accounts, representing an increase of 0.86 million when compared to the end of last year. The annuity fund under custody was RMB45.3 billion, representing an increase of RMB26.5 billion.

Precious Metal Business

The Bank intensified the efforts in promoting the precious metal and maintained rapid development in various businesses. The Bank has sold 10 tons of six types of the branded gold bar, "Ruyi Gold", representing an increase of 14.4 times over the same period of last year. The trading volume of personal account stood at 249 tons, up four times. The agency bullion trading of the Bank with Shanghai Gold Exchange was RMB5 billion, representing an increase of 2.3 times. With the acceleration of clearing services and electronic trading, RMB75.8 billion of funds were cleared with the Shanghai Gold Exchange on behalf of the customers in the first half of 2008, maintaining the leading position in the industry. The Bank won the "First Prize of Excellent Member in 2007" granted by Shanghai Gold Exchange.

Corporate Wealth Management

Taking advantage of the situation on the capital market, the Bank enhanced product innovation, improved the technical contents of its wealth management products and achieved rapid development of corporate wealth management business. The Bank launched new products such as flexible ultra-short-term products, rolling wealth management products, and bills investment products so as to meet the customers' demands on liquidity and profitability of wealth management products. With the advantage of outlet network and electronic banking, the Bank promoted corporate wealth management products via multiple channels. In the first half of this year, the aggregate sales of corporate wealth management products amounted to RMB281.8 billion, representing an increase of 2.5 times over the same period last year, of which, RMB wealth management products stood at RMB265.5 billion, and foreign currency wealth management products amounted to USD2.4 billion.

Personal Banking

The Bank continuously reformed personal banking business and accelerated the adjustment of business structure in order to improve customer service and market competitiveness. The Bank intensified the efforts in innovation of personal wealth management products and coordinated the development of deposits and personal wealth management. The Bank accelerated the construction of VIP service centers and wealth management centers, enhanced customer stratification service system, improved customer structure and increased the number and proportion of middle to high-end customers. The Bank established the Private Banking Department to enhance its capability in delivering professional services. The Bank maintained steady development in personal banking businesses and was named the "Best Retail Bank in China" by *The Asian Banker*. As at the end of June 2008, the Bank had 185 million individual customers, including 4.72 million personal loan customers.

Savings Deposits

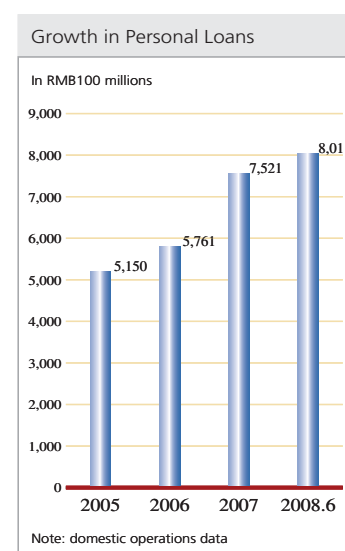
In the first half of 2008, there was a significant change in the customers' investment intention following the downturn of the capital market and the increased risks of investment. In order to adapt to the changes in the market and customer demands, the Bank provided guidance to customers on reasonable allocation of financial assets and achieved simultaneous development of deposits and wealth management business. The Bank stabilized and expanded its customer base with its advantages in wealth management products, and increased the scale of personal fund flow. The Bank vigorously developed the third party depository business and provided guidance to the surplus funds on stock accounts of the customers to flow back to the savings account. As at the end of June 2008, the balance of domestic savings amounted to RMB3,592,069 million, an increase of RMB347,995 million or 10.7% from the end of the previous year, and the balance of savings deposits remained number one in the industry.

Personal Loans

The continuous interest rate hikes over the past two consecutive years and the unclear trend of house price resulted in the decline of demands for personal housing loans and the intensified competition in the personal housing loan market. The Bank actively adjusted its loan extension orientation and focused on the development of personal housing loans where borrowers were the first time to buy their first house for own-use. The Bank continued to develop the personal housing loan business, improved the procedures, and optimized its marketing force and channels to improve the market value of the brand of "Happiness Loan". As at the end of June 2008, the balance of domestic personal loans amounted to RMB801,128 million, an increase of RMB49,015 million or 6.5% from the end of the prior year. The Bank held the largest market share in the personal loan market. The balance of personal housing loans reached RMB575,772 million, up 7.4%.

Personal Wealth Management

The Bank enhanced the compliance for sales of personal wealth management products, accelerated product and service innovation, and established the sales and service system for wealth management products on the basis of the satisfaction of target customer, classification of return level and risk complementation, thus keeping a leading position in the personal wealth management market. In the first half of 2008, domestic operations sold RMB877.3 billion personal wealth management products, representing an increase of RMB439.1 billion or 100.2% over the same period in the previous year.



With regard to the increasing demand for wealth management, the Bank strengthened the innovation of personal banking wealth management products and successfully launched new products such as “Money Link Express” ultra-short-term wealth management, instrument investment wealth management, and equity and benefit right wealth management to enrich the system of wealth management product. The Bank launched “ICBC Wealth”, “Elite Club Account” and “Private Banking” in order to meet the demands of medium to high-end customers for wealth management products. In the first half of 2008, the accumulated sales of wealth management products amounted to RMB549.5 billion, representing an increase of 6.5 times from the end of the previous year and the largest market share.

Facing market fluctuations, the Bank handled the agency sales of personal wealth management products properly. The Bank promoted the development of agency personal insurance business by accelerating the introduction of new products and promoting the application of the “Bank-Insurance Link” system. Premium income from agency sales of insurance products stood at RMB68.5 billion, an increase of 227.8% over the same period of last year. Sales of treasury bonds stood at RMB36.5 billion, and the Bank continued to lead the industry. As a result of the impact of in-depth adjustment on the capital market, agency sales of open-ended funds amounted to RMB222.8 billion, representing a decrease of RMB87.2 billion over the same period of previous year. However, the Bank maintained the first position in terms of agency fund sales, inventory fund and customer number. In the first half of 2008, the various personal wealth management products sold amounted to RMB327.8 billion.

Elite Club Account

The Bank enhanced the services quality of the Elite Club Account customers through channel development, service upgrading and wealth management product development. The Bank continued to establish and upgrade VIP service centers, and improved the exclusive service and exclusive channel for Elite Club Account via telephone banking 95588 and internet banking. The Bank successfully launched the “Wealth Credit” customer credit feedback program and provided the customers with numerous value-added services such as wealth management salon, expert lectures and preferred merchants. The Bank issued seven types of exclusive wealth management products for the Elite Club Account customers. With the continuous improvement of the quality of personal customer manager team, the Bank had 5,426 Associate Financial Planners (AFP), 861 Certified Financial Planners (CFP), ranking the first in banking sector. The number of Elite Club Account customers maintained a steady increase. As at the end of June 2008, Elite Club Account customers amounted to 3.81 million, representing an increase of 0.79 million or 26.2% from the end of the previous year.

Bank Card Business

During the first half of 2008, the Bank intensified its investment in the bank card business and continuously improved the environment of the acceptance of bank card and the payment system. As at the end of June 2008, the Bank issued 217 million bank cards, representing an increase of 7.14 million cards from the end of the previous year. Income from the bank card business reached RMB3,197 million, representing an increase of 29.1% compared to the corresponding period of last year.

Credit Card Business

The Bank accelerated the development of its credit card business and further improved product innovation, service quality, brand image and business scale. The Bank further developed its co-brand cards, established 75 VIP credit card customer service centers, and improved the quality of customer service. Moreover, the Bank expanded its network of franchise and preferred merchants, launched various promotion activities, and continuously expanded the scope and scale of consumers’ use of cards. The Bank strengthened product innovation, enriched value-added services contents, and provided the holders of special cards with value-added services such as traffic accident insurance and privileges in automobile rescue. As at the end of June 2008, the Bank issued 33.03 million credit cards, an increase of 9.65 million or 41.3% from the end of the previous year, with the consumption increased by RMB43.3 billion or 64.1% to RMB110.8 billion, ranked the first among banks in terms of card issuance and consumption volume. The balance of domestic credit card overdrafts amounted to RMB11,675 million, representing an increase of RMB3,434 million or 41.7%.

Debit Card Business

Taking the advantages of Peony Moneylink Card with multiple functions, the Bank enhanced the integration of marketing channels, identified and developed high-quality customers, and provided various value-added services. The Bank upgraded the products of Peony Moneylink Card, and provided new value-added services, such as statement of account, in order to strengthen the management of customer account. The Bank intensified market segmentation and made great efforts to promote the issuance of the Peony Moneylink E-era Card to medium-end and potential customers. The Bank carried out various pay-by-card promotion activities and recorded a rapid growth in the sales volume of Peony Moneylink Card. As at the end of June 2008, the number of debit cards reached 184 million, with a consumption of RMB269.4 billion, an increase of RMB88.8 billion or 49.2% over the same period of the previous year.

Treasury Operations

Money Market Activities

During the first half of 2008, PBOC continued to implement tightening monetary policy and raised the mandatory deposit reserve ratio for five times. Meanwhile, a sizable adjustment was noted in the capital market. Accordingly, the growth of amounts due to banks and other financial institutions has been slowed down, and the liquidity in the money market tightened. In this context, the Bank strengthened its liquidity analysis and management, and made rational arrangements on the scale, term and counterparty of fund lending and borrowing, ensuring the balance among liquidity, security and yield of fund. During the first half of the year, domestic branches of the Bank transacted accumulatively RMB4,447.6 billion of RMB placement and taking, representing an increase of 67.0% over the same period last year. Most foreign currency money market transactions were denominated in US dollar. During the first half of 2008, the volume of the Bank's foreign currency money market transactions reached USD602.1 billion, representing an increase of 90.6% over the same period last year.

Management of Investment Portfolio

Trading Book Business

The first half of 2008 witnessed the volatile inter-bank RMB bond price index which rebounded strongly after continuous falling last year and then fell significantly. In the response to market changes, the Bank adjusted trading strategies in a timely manner and adjusted the allocation of bonds to adjust the portfolio duration and the composition of bonds with floating interest rate to effectively control market risk. The Bank also placed emphasis on bonds market-maker businesses, and enriched the types of enterprise short-term financing bills and medium-term bills in the list of products for which the Bank offered quotations. The transaction volume of RMB bond trading book was RMB1.35 trillion in the first half of 2008. Besides, the Bank intensified efforts in foreign currency bond trading, and achieved USD23.5 billion transaction volume of foreign currency bond trading book.

Banking Book Business

The yield curve of RMB bond market went down and then up during the first half of 2008. In response to changes in the yield curve and interest spread of government bonds, financial bonds and enterprise bonds, the Bank timely rebalanced its investment portfolio, and raised the proportion of investment in government bonds, financial bonds and low-risk enterprise bonds. Such strategy has effectively controlled the interest rate risk and credit risk exposure of the Bank and enhance the Bank's investment return. As at the end of June 2008, the balance of RMB banking book bond investment was RMB2,964,685 million. As for foreign currency bonds investment, the Bank continued to actively adjust the investment portfolio and optimize the type structure.

Agency Treasury Operations

The Bank kept conducting product innovation, and developed brand-new products such as RMB interest rate swaps and forward foreign exchange trading, enriching the product line of agency treasury operations and providing customers with more options. The Bank also enhanced its ability of pricing and services for RMB and foreign currency agency treasury operations, promoting the rapid development of such businesses. During the first half of 2008, the volume of customer-driven foreign currency treasury transactions grew by 186.9% over the same period last year to USD420.6 billion, of which, RMB foreign exchange transaction volume (spot transaction) reached USD332.1 billion, foreign exchange transaction volume (including paper gold) reached USD21.5 billion, and the transaction volume of derivative products reached USD67.0 billion.

Asset Securitization Business

The Bank actively promoted its asset securitization business to enhance asset management and optimize the structure of credit assets. During the first half of 2008, the Bank launched a credit asset securitization product (first issue in 2008) of RMB8 billion, being the largest scale of single issuance in China. As at the end of June 2008, the Bank, as originator, completed two credit asset securitization issues, with the balance of asset-backed securities standing at RMB11.2 billion. The underlying assets of the above issues are high-quality enterprise loans, all of which were graded as “pass” and had no overdue or default records.

Distribution Channels

Domestic Branch Network

Maintaining its competitive edge over other banks in terms of institutional network, the Bank continuously adjusted the regional distribution of institutions, increased the proportion of developed areas such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and conducted reasonable regional allocation of institutional network resources. The Bank successfully carried out the preparation for establishing Tibet Branch, steadily pushed forward channel planning and outlet distribution, deepened the reform of flat pattern institutions, and increased the competitiveness of urban branches. The Bank continuously implemented outlet upgrading and increased the investment in outlet construction to meet the individualized and differentiated service demands of medium-and high-end customers. As at the end of June 2008, the Bank upgraded over 1,900 wealth management centers and VIP service centers.

As of 30 June 2008, the Bank had 16,403 institutions in Mainland China, including the Head Office, 30 tier-1 branches, 5 branches directly controlled by the Head Office, 27 banking offices of tier-1 branches, 384 tier-2 branches, 3,056 tier-1 sub-branches, 12,879 outlets, 19 institutions directly controlled by the Head Offices and their offices, and 2 majority holding subsidiaries.

E-banking Business

The Bank accelerated the innovation and application of products and maintained a leading edge over other banks in terms of e-banking business. The Bank conducted product standardization and refinement, launched 11 new products including payment guarantee for corporate online banking, physical gold deferment, Bank-Tax and transfer reservation through telephone banking, improved 37 products and functions, and enriched the e-banking product system. As at the end of June 2008, the Bank had 103.77 million e-banking customers, an increase of 28.2% from the end of the previous year, ranking the first at the market. The transaction volume of e-banking was RMB68.07 trillion, an increase of 58.5% over the same period last year. The number of e-banking transactions accounted for 39.5% of total transactions, up 2.3% from the end of the previous year.

Internet Banking

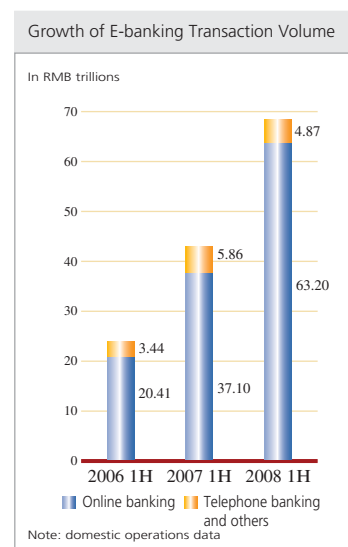
The Bank was the first in China which launches the credit payment service for online transactions, thus providing a safer and faster e-commerce transaction platform for merchants and customers. The Bank put into operation the internet banking reconstruction program and improved the flexibility and extensibility of internet banking system. The Bank improved the procedures and interfaces of such popular products and functions as wealth management, securities trading, wage payment, and bank-enterprise account reconciliation. During the first half of 2008, the Bank's corporate internet banking customers increased by 0.29 million to 1.27 million; personal internet banking customers increased by 9.42 million to 48.50 million. The transaction volume of corporate internet banking amounted to RMB59.39 trillion and that of personal internet banking reported RMB3.82 trillion, marking year on year increases of 67.0% and 148.1%, respectively. The Bank won the titles of "Best Consumer Internet Bank in China" and "Best Corporate/Institutional Internet Bank in China" granted by *Global Finance*.

Telephone Banking

The Bank successfully integrated and put into operation telephone banking business, centralized the information of telephone banking customers, and further increased the intensive operation of telephone banking. The Bank added such functions as transfer reservation and third party depository self-opening of the Peony International Card. The Bank opened the VIP line for telephone banking and provided the high-end customers with quality services including expert services and exclusive consultation. The Bank won the honor of "Best Banking Customer Service Center" in the "First Banking Call Center Selection".

Mobile Banking

During the first half of 2008, the Bank's mobile banking (SMS) customers increased by 5.13 million to 10.62 million. The Bank launched the WAP connected mobile banking service, further improved the functions of mobile banking, and expanded the mobile banking service market. Mobile banking (WAP) has 11 major functions and over 60 sub-functions, and can process account management, remittance, transfer, bill payment, wealth management, and consumption payment, providing the customers with diversified, convenient and direct banking services.



Self-service Banking

The Bank increased the input in self-service equipment, broadened their coverage, improved the appearance, and promoted the construction of self-service channels. The Bank launched self-service terminals that are easy and convenient for operation to meet the customers' demands for fast inquiry, transfer, remittance and payment, and further dispersed counter operation. As at the end of June 2008, the Bank had 6,300 self-service outlets, up 28.8% from the end of last year, 26,014 ATMs, up 11.1%. The transactions on ATMs amounted to RMB722.5 billion, a year on year increase of 65.7%.

Item	As at 30 June 2008	As at 31 December 2007	Growth Rate (%)
Number of e-banking customers (10,000)	10,377	8,096	28.2
Of which: Corporate customers	237	198	19.7
Personal customers	10,140	7,898	28.4
Number of online banking customers (10,000)	4,977	4,006	24.2
Of which: Corporate customers	127	98	29.6
Personal customers	4,850	3,908	24.1

International and Diversified Operation

In 2008, the Bank continuously pushed forward the international and diversified business strategy. While steadily constructing the global network through establishment and M&A, the Bank proactively pushed forward the business transformation and innovative development of overseas institutions and accelerated the business integration of its operations in Hong Kong. The Bank also explored the comprehensive operation in terms of related financial areas such as securities, insurance and trust.

During the first half of 2008, the Bank completed the acquisition of 20% shares of Standard Bank and 79.9333% shares of Seng Heng Bank, and completed the delivery of its purchase of 100,913,330 ordinary shares and 11,212,592 warrants of ICBC (Asia) (which have been fully exercised). The establishment of Doha Branch, ICBC Middle East and Sydney Branch was approved by the relevant regulatory authorities. ICIC obtained the license for investment banking. The Bank's application for establishing Vietnam Branch was approved by CBRC, and steady progress has been made in the application to overseas regulatory authorities. The establishment of New York Branch was approved by US Federal Reserve Board on 5 August 2008 (US Eastern Standard Time).

As at the end of June 2008, the Bank expanded its overseas operations to 15 countries and regions, set up 126 institutions and offices, and established agency relationship with 1,360 banks in 122 countries and regions. The overseas network has begun to take shape.

During the first half of 2008, the Bank's overseas operations and domestic holding subsidiaries realized an operating income of RMB3,092 million; profit before tax of RMB2,730 million, a year on year increase of 38.2%; its total assets stood at RMB322,721 million, an increase of RMB70,763 million or 28.1% from the end of the previous year.

After acquiring Standard Bank, the largest commercial bank in Africa, the Bank became the largest shareholder and nominated two non-executive directors. President Yang Kaisheng took the post of Vice Chairman and participated in its corporate governance as a member of the Director Affairs Committee, Group Risk and Capital Management Committee, and Group Credit Committee, and as an observer of the Group Audit Committee. The two banks signed the cooperation agreement regarding certain operations and initiated strategic cooperation in terms of corporate banking, resource banking, investment banking, global financial markets and global resource fund.

As the third largest commercial bank in Macau and the largest local bank, Seng Heng Bank provided extensive banking services including corporate banking and personal banking. The shareholding of Seng Heng Bank provided the Bank with quality network distribution and customer groups and secured the leading position in the banking sector of Macau. After the acquisition, the Bank restructured the Board of Directors of Seng Heng Bank and dispatched important senior executives such as the Chairman and General Manager.

Information Technology

The Bank continuously promoted the implementation of the “Technology Driven” strategy, innovated its application products, achieved safe and stable operation of its information system, and improved customer service and business management. The Bank ranked the first among the “Top 500 Information Enterprises in China”. The Bank won the honor of “Business Continuity & Governance Project” granted by *The Banker*.

During the first half of 2008, the Bank completed the R&D, testing and operation of 152 new projects and 163 optimized projects, rapidly pushed forward the R&D and application of personal banking, corporate banking, e-banking, overseas operation, and risk management. The Bank put into operation the system for private banking management and the domestic centralized payment in foreign currencies. With the core system of market risk management put into operation, the Bank further improved its credit business system. The core business processing systems of overseas institutions such as Sydney Branch, Doha Branch and ICBC Middle East as well as the corporate data warehouse (phase I) project were put into operation, and the customer information system was further improved. The Bank also proactively carried out preparations to guarantee the security of the information system, and guaranteed the normal operation during the natural disasters such as snow disaster and earthquake. The Bank completed the capacity expansion of the key application system and basic facilities ahead of schedule, strengthened emergency management and intensified the measures of information system security in order to provide quality and efficient services during the Olympic Games.

RISK MANAGEMENT

Comprehensive Risk Management System

In the first half of 2008, the Bank made active efforts to improve the comprehensive risk management system and enhance the comprehensive risk management capability. It implemented an updated comprehensive risk management framework, and clearly set up the development objectives and prospective requirements. The Bank introduced the risk management evaluation approaches and conducted an overall evaluation on the risk management of branches. The risk limit management system was formulated to improve the risk control capability. A systematic comprehensive risk management system has taken shape.

The Bank continued to steadily promote the utilization of achievements of Non-retail IRB System Project, and launched the facility rating system, customer risk-adjusted return on capital (RAROC) system and portfolio rating system, paving the way for application of IRB risk quantification results to the whole process of risk management. The Bank also completed the retail IRB system project and has initiated the system development and achievement popularization in an all-round way.

Credit Risk

Credit Risk Management

In order to cope with the changes in macro-economic and financial situations, the Bank initiated credit system building and credit process re-engineering and improved the IT-based credit management in the first half of 2008. It intensified industrial risk management and customer structure adjustment, improved post-lending management, accelerated NPL recovery and disposal, and strengthened the comprehensive credit risk management.

The Bank continued to enhance credit policies and procedures, modified the loan guarantee management policy, and formulated management measures for the fixed asset-backed financing business. Efforts were also made to improve the credit asset quality classification standards, push forward the building of risk monitoring system for large borrowers, and steadily enhance the credit management. It initiated the process reengineering for corporate credit business, and steadily pushed forward the implementation of the process reengineering plan. It kept optimizing the credit management system (CM2002), and achieved the management of corporate customers supply chain, the management of financial risk pre-warning controls and the supervision over personal credits based on the processes and IT platform. Credit management system was implemented in certain overseas institutions in Europe.

In line with China's macro-control and industrial policy guideline, the Bank made amendments to the industrial credit policy and further expanded the coverage of such policy. It further implemented the "Green Credit" policy and managed the borrowers by grade and by category according to their environmental protection status. It introduced industrial limit management and enhanced the control over industrial concentration risks. It appropriately lifted the access entry thresholds for customers in some industries, accelerated withdrawal from the loans with potential risks, and quickened the pace of credit distribution restructuring. It also established the system of regular meeting for industrial credit analysis, in order to strengthen the prospective analysis of industrial credit risk.

- The Bank intensified real estate industry risk management, actively responded to the changes in real estate market, improved credit policies for the real estate industry, appropriately raised the customer acceptance standards and introduced industrial limit for management of real estate development loans. It also continued to exercise management based on the real estate customer list, optimize the loan distribution, and strengthen the management of special fund accounts, management of group customers and the loan review, in an effort to prevent real estate industry risk.
- The Bank enhanced the risk management over import and export industries. The factors such as reduction of export demand, RMB appreciation and surge of domestic production cost have posed adverse effect on textile and other industries relating to import and export. In response to the changes in the industries, the Bank appropriately raised the market access standards, introduced industrial limit, and strengthened the management of the sufficiency of collaterals provided by customers and loan liquidity in order to prevent credit risks derived from loans to such industries as textile.
- The Bank strengthened the management of trade finance, and optimized the trade finance business process. It clarified the key points of trade finance extension and examination, as well as the responsibility of departments and posts relating to post-lending management, and strengthened the information communication and integration. It regularly analyzed and monitored the risks in trade finance business, and raised warning for the risks in a timely manner.
- The Bank reinforced risk management over loans to small enterprises and pushed forward the re-engineering of small enterprise credit process. It further improved the management of small enterprise, strengthened the customers acceptance standards, accelerated the adjustment of small enterprise customer structure, actively withdrew loans in due course according to the lifecycle of customers, and gradually established a small enterprise credit flow management model.
- The Bank intensified risk management of personal loans, adjusted personal credit product mix, extended credits principally to the personal customers for their purchase of first house for residential use, and controlled the increment of personal business loans and personal consumer loans at an appropriate level. The Bank strengthened the management of personal housing loans, kept a close watch on the movement of housing prices in each region, further enhanced the examination of borrowers' debt service capability and loan purpose, and appropriately lifted borrowers acceptance standards. It continued to manage personal business loans by limiting the branches eligible for business, based on which the Bank has suspended approval of new eligible branches. The Bank also strengthened the monitoring and inspection effort, and strictly ensured loans were used for applied purpose and guarantees were fulfilled.
- The Bank enhanced the risk management of credit card business, revised policies governing issuance of credit cards, applied categorization management of the applicants, further clarified the initial credit limit and adjustment range for each class of customers, and strengthened the limit approval management. It improved the system of asset quality monitoring indicators for credit card overdrafts, conducted a comprehensive evaluation of the asset quality by card issuing institutions, accelerated system updating and achieved quantification management of risks.

The Bank continued to properly collect and dispose of the NPLs. Through a combination of various approaches such as recovery in cash, bad debt write-off, exemption of interest, repossession of assets, and debt restructuring, the Bank further enhanced the collection and disposal of NPLs, improved management of NPLs in a more sophisticated way, brought down the disposal cost and increased the recovery ratio. The Bank continued to prioritize the recovery in cash as the principal approach, in an effort to increase the contribution of NPL collection and disposal to operating results. It also enhanced the collection and disposal of large amount NPLs, systematically pushed forward bad debt write-off, and actively implemented the latest regulations issued by the MOF regarding bad debt write-off by financial institutions. It further standardized the management system and work process for bad debt write-off, and urged and guided branches to write off NPLs in line with the latest policy as soon as practicable. After the NPLs management information system was put into service, the Bank became the first one among domestic large banks in managing the whole process of corporate NPLs disposal on the basis of IT system.

Credit Risk Analysis

At the end of June 2008, the details of the Bank's maximum exposure to credit risk (without taking account of any collateral and other credit enhancements) are set forth below:

MAXIMUM EXPOSURE TO CREDIT RISK

In RMB millions

Item	At 30 June 2008	At 31 December 2007
Balances with central banks	1,441,618	1,103,223
Due from banks and other financial institutions	164,638	199,758
Financial assets held for trading	41,076	31,501
Financial assets designated at fair value through profit or loss	2,633	2,785
Derivative financial assets	25,354	22,769
Reverse repurchase agreement	59,182	75,880
Loans and advances to customers	4,233,318	3,957,542
Financial investment		
— Receivables	1,212,167	1,211,767
— Held-to-maturity debt securities	1,348,421	1,330,085
— Available-for-sale investment	584,678	524,723
Other assets	83,547	59,136
Sub-total	9,196,632	8,519,169
Credit commitments	907,964	789,687
Maximum credit risk exposure	10,104,596	9,308,856

DISTRIBUTION OF LOANS BY COLLATERALS

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Loans secured by mortgages	1,638,132	37.6	1,519,748	37.3
Including: personal housing loans ⁽¹⁾	575,772	13.2	536,331	13.2
Pledged loans	553,025	12.7	575,598	14.1
Including: discounted bills ⁽¹⁾	198,208	4.6	252,103	6.2
Guaranteed loans	855,594	19.6	836,476	20.6
Unsecured loans	1,308,614	30.1	1,141,407	28.0
Total	4,355,365	100.0	4,073,229	100.0

Note: (1) Data of domestic branches.

At the end of June 2008, the unsecured loans of the Bank amounted to RMB1,308,614 million, representing an increase of RMB167,207 million or 14.6% as compared with that at the end of the previous year, representing a growth in the scale of loans to customers with higher credit rating and continuing optimization of customer composition. The loans secured by mortgages remained the largest component of loans with an amount of RMB1,638,132 million, representing an increase of RMB118,384 million or 7.8%.

OVERDUE LOANS

In RMB millions, except for percentages

Period overdue	At 30 June 2008		At 31 December 2007	
	Amount	Percentage of total loans (%)	Amount	Percentage of total loans (%)
Overdue for 3–6 months	4,761	0.1	4,631	0.1
Overdue for 6–12 months	7,196	0.2	10,150	0.3
Overdue for more than 12 months	79,526	1.8	86,771	2.1
Total	91,483	2.1	101,552	2.5

Note: The loans and advances to customers with payment of principal or interest in arrears shall be deemed as overdue. As for loans or advances to customers which are allowed for repayment in installments, if a part of such loan or advance has been overdue, the whole loan or advance shall be classified as overdue loan or advance.

RENEGOTIATED LOANS AND ADVANCES TO CUSTOMERS

At the end of June 2008, renegotiated loans and advances amounted to RMB31,578 million, representing a decrease of RMB6,803 million or 17.7% as compared to that at the end of the previous year. Renegotiated loans and advances overdue for more than three months totaled RMB23,564 million, representing a decrease of RMB5,201 million.

BORROWER CONCENTRATION

The table below shows the details of the top 10 single borrowers of the Bank at the end of June 2008.

In RMB millions, except for percentages

Borrower	Industry	Amount	Percentage of total loans (%)
Borrower A	Transportation and logistics	18,413	0.4
Borrower B	Mining	16,364	0.4
Borrower C	Transportation and logistics	13,683	0.3
Borrower D	Water resources, environmental protection and public facilities management industry	11,162	0.3
Borrower E	Transportation and logistics	10,740	0.3
Borrower F	Water resources, environmental protection and public facilities management industry	10,553	0.3
Borrower G	Power generation and supply	10,300	0.2
Borrower H	Water resources, environmental protection and public facilities management industry	10,164	0.2
Borrower I	Power generation and supply	9,661	0.2
Borrower J	Transportation and logistics	9,179	0.2
Total		120,219	2.8

At the end of June 2008, loans to the largest single customer accounted for 3.2% of the Bank's net capital base; and loans to the top 10 customers in aggregate accounted for 21.1% of the Bank's net capital, both in compliance with the regulatory requirements. The loans to the top 10 customers totaled RMB120,219 million, accounted for 2.8% of total loans.

DISTRIBUTION OF LOANS BY FIVE-TIER CLASSIFICATION

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Pass	4,056,453	93.14	3,728,576	91.54
Special mention	193,776	4.45	232,879	5.72
Non-performing loans	105,136	2.41	111,774	2.74
Sub-standard	37,511	0.86	38,149	0.94
Doubtful	55,883	1.28	62,042	1.52
Loss	11,742	0.27	11,583	0.28
Total	4,355,365	100.00	4,073,229	100.00

The Bank's loan quality was further improved at the end of June 2008. In accordance with the five-tier classification, pass loans of the Bank went up by RMB327,877 million to RMB4,056,453 million, and accounted for 93.14% of the total loans, up 1.60 percentage points as compared to the end of the previous year, which reflected an increase in the Bank's high quality loans. The Bank's special mention loans decreased by RMB39,103 million to RMB193,776 million, and accounted for 4.45% of the total, down 1.27 percentage points, of which, special mention loans to domestic companies declined by RMB22,306 million mainly because the Bank has expedited the exit from loans with potential risk; special mention loans to domestic individuals slid down RMB17,328 million mainly because the Bank has strengthened the collection of loans in delinquency. The balance of NPLs was RMB105,136 million, a decrease of RMB6,638 million and the NPL ratio was 2.41%, down 0.33 percentage point, representing a continued decrease both in the balance of NPLs and the NPL ratio, mainly because the Bank has accelerated the collection and disposal of NPLs through collection in cash, write-off, repossession of assets and other ways. The Bank also strengthened the monitoring of and exit from loans with potential risk.

NPLs BY BUSINESS LINE

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	NPL ratio (%)	Amount	NPL ratio (%)
Corporate loans	95,093	3.01	102,198	3.51
Discounted bills	—	—	—	—
Personal Loans	9,086	1.13	8,610	1.14
Overseas operations and others	957	0.48	966	0.63
Total	105,136	2.41	111,774	2.74

At the end of June 2008, the balance of non-performing corporate loans of the Bank's domestic operations decreased by RMB7,105 million to RMB95,093 million, with a decrease of 0.50 percentage point in NPL ratio to 3.01%. The balance of non-performing personal loans increased by RMB476 million to RMB9,086 million mainly because of slight increase in non-performing personal business loans; and the NPL ratio decreased by 0.01 percentage point to 1.13%.

DISTRIBUTION OF NON-PERFORMING CORPORATE LOANS OF DOMESTIC OPERATIONS BY INDUSTRY

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	NPL ratio (%)	Amount	NPL ratio (%)
Manufacturing	49,035	6.36	55,766	7.56
Chemicals	9,269	7.24	9,940	8.20
Machinery	7,285	6.97	8,411	8.79
Iron and steel	1,295	1.46	1,601	1.90
Metal processing	2,647	3.21	3,377	4.34
Textile and apparels	6,323	7.87	6,864	8.68
Automobile	1,596	3.32	1,837	4.32
Electronics	3,125	7.79	3,659	8.47
Petroleum processing	887	2.23	1,031	2.88
Cement	4,096	12.88	4,467	14.43
Others	12,512	9.85	14,579	11.44
Transportation and logistics	8,687	1.32	6,320	1.05
Power generation and supply	4,829	1.05	5,344	1.32
Property development	8,235	2.43	8,559	2.82
Water, environment and public utility management	1,039	0.42	1,118	0.49
Retail, wholesale and catering	14,531	7.00	15,949	8.53
Leasing and commercial services	1,465	0.81	1,349	0.84
Science, education, culture and sanitation	2,111	2.92	1,876	2.69
Construction	1,607	2.65	1,351	2.57
Others	3,554	2.23	4,566	2.74
Total	95,093	3.01	102,198	3.51

At the end of June 2008, the NPLs in the manufacturing industry decreased by RMB6,731 million and the NPL ratio declined by 1.20 percentage points; NPLs in retail, wholesale and catering industries decreased by RMB1,418 million and the NPL ratio declined by 1.53 percentage points; NPLs in the power generation and supply industry decreased by RMB515 million and the NPL ratio declined by 0.27 percentage point; NPLs in the property development industry decreased by RMB324 million and the NPL ratio declined by 0.39 percentage point. The rise of the NPLs and the NPL ratio in industries such as transportation and logistics, construction and science, education, culture and sanitation was mainly triggered by the NPLs in some borrowers. However, the overall loan risk in these industries did not deteriorate.

CHANGES IN ALLOWANCE FOR IMPAIRMENT LOSSES OF LOANS

In RMB millions

	Individually assessed	Collectively assessed	Total
Balance at the beginning of the period	58,944	56,743	115,687
Charge for the period	1,636	12,012	13,648
Accreted interest on impaired loans	(694)	—	(694)
Transfer-out ⁽¹⁾	(729)	—	(729)
Write-offs	(5,676)	(189)	(5,865)
Balance at the end of the period	53,481	68,566	122,047

Note: (1) Transfer-out refers to corresponding impairment allowance released as the Bank repossessed the collateralized assets in settlement of the related loans.

At the end of June 2008, the allowance for impairment losses of loans amounted to RMB122,047 million, representing an increase of RMB6,360 million as compared to that at the end of the previous year. The ratio of total allowance to NPL was 116.08%, up 12.58 percentage points, which reflected that the Bank's risk compensation capability has further improved. The ratio of allowance to total loans was 2.80%.

Market Risk Management**Market Risk Management of Trading Book**

In the first half of 2008, the Bank established the market risk management core system, accomplishing the integration of trading book balances and unified measurement and management of risks. The methods of measurement of market risk of the trading books mainly include value at risk (VaR), sensitivity analysis and gap analysis.

The Bank has established market risk limits for its trading book. The key risk limits are gap limits, stop loss limits and sensitivity limits. The Bank set the market risk limit at each trading desks and traders, and monitored and analyzed the limits on a daily basis. The implementation of limit management was reported through a defined risk reporting channel.

Since the second quarter of 2008, the Bank has started to measure the VaR of its trading books at the Head Office level. The VaR computation was based on the historical simulation method (250-day historical data with a confidence level of 99% and a holding period of one day). The VaR of trading books of the Head Office is shown in the table below:

VAR OF TRADING BOOKS

In RMB millions

Item	April–June 2008			
	At the end of the period	Average	Maximum	Minimum
Interest rate risk	59	62	90	34
Exchange rate risk	26	42	83	21
Total portfolio VaR	65	78	103	44

Note: Please refer to "Note 41(c)(i) to the Financial Statements: VaR of trading portfolios" for details.

Market Risk Management of Banking Book

Interest Rate Risk Management

In the first half of 2008, the Bank formulated interest rate risk management policies, which defined the specific goals and procedures for interest rate risk management, and which further improved the interest rate risk management framework of the Bank. The Bank upgraded the interest rate management system, enriched and strengthened the functions of interest rate risk management and analysis, and further enhanced interest rate risk management. In addition, the Bank also strengthened the management of floating loan rates, and formulated an interest rate pricing standards for amount due to banks and RMB loans to corporate customers, which contributed to the improvement of the overall profitability of the Bank.

Exchange Rate Risk Management

In the first half of 2008, the Bank further improved the exchange rate risk management policy and method; optimized the asset-liability currency structure, and achieved a reasonable balance between return on foreign exchange loan business and exchange rate risk, in response to the changes in macro-economic and changes in financial conditions. The Bank adjusted the interest rates for internal fund transfers for several times, leveraging interest rate to successfully control the growth of foreign exchange loans, encouraged foreign exchange deposits, and effectively controlled the expansion of foreign exchange exposure and exchange losses.

Interest Rate Risk Analysis

In the first half of 2008, as PBOC further tightened the monetary policy and raised the mandatory deposit reserve ratio five times, market liquidity was getting tighter and the interest rates on the RMB money market increased gradually.

As at the end of June 2008, the accumulated negative gap of interest rate sensitivity with a term of less than one year was RMB1,437,332 million, representing an increase of RMB247,592 million as compared to that at the end of the previous year, mainly because of a growth in the negative gap with a term of less than three months. The Bank's time deposits with a term of less than one year increased significantly due to the upward movement of time deposits as a result of the capital market fluctuations. Therefore, the Bank has adjusted the period of loan re-pricing to limit the re-pricing period of most credit assets within one year. On 30 June 2008, an analysis of the Bank's interest rate risk based on the contractual re-pricing date or maturity date (whichever is earlier) is shown in the following table:

INTEREST RATE RISK GAP

In RMB millions

	Less than 3 months	3 months– 1 year	1–5 years	Over 5 years
At 30 June 2008	(2,986,709)	1,549,377	1,464,056	436,140
At 31 December 2007	(2,725,495)	1,535,755	1,273,400	465,411

Note: Please refer to "Note 41(c)(iii) to the Financial Statements: Interest rate risk" for details.

The following table sets forth the sensitivity of the Bank's interest income and equity to the potential movement of reasonable interest rate assuming that other parameters remain unchanged:

INTEREST RATE SENSITIVITY ANALYSIS

In RMB millions

Movements of interest rate basis points	At 30 June 2008		At 31 December 2007	
	Movements in net interest income	Movements in equity	Movements in net interest income	Movements in equity
Increase of 100 basis points	(20,441)	(8,636)	(18,160)	(9,213)
Decrease of 100 basis points	20,441	8,828	18,160	9,452

Note: Please refer to "Note 41(c)(iii) to the Financial Statements: Interest rate risk" for details.

The analysis of interest rate sensitivity is based on the interest rate risk of the Group as of the reporting date, and analyzes the impact of interest rate movement on short-term (less than one year) net interest income of the Bank, assuming the overall interest rate in the market moves in parallel. The projections above also assume that interest rates of all maturities move by same amount and, therefore, do not reflect the potential impact on net interest income in the context that some rates change while the others remain unchanged. This effect, however, does not incorporate the risk management activities that would be taken by the management to mitigate the impact of this interest rate risk.

Currency Risk Analysis

The appreciation of Renminbi against US dollar further accelerated with an accumulated appreciation of 6.5% in the first half of 2008, which was close to the appreciation in the whole of 2007. Since the Chinese Government initiated exchange rate reform in July 2005, Renminbi has appreciated by 20.66% in aggregate against US dollar.

The Bank's net foreign exchange exposure at the end of June 2008 is shown in the following table:

FOREIGN EXCHANGE EXPOSURE

In RMB/USD millions

	At 30 June 2008		At 31 December 2007	
	RMB	USD equivalent	RMB	USD equivalent
Total exposure of on-balance-sheet foreign exchange, net	258,703	37,717	342,009	46,821
Total exposure of off-balance-sheet foreign exchange, net	(184,097)	(26,840)	(204,323)	(27,972)
Total foreign exchange exposure, net ⁽¹⁾	74,606	10,877	137,686	18,849
Less: foreign currency-denominated net investment in foreign operations ⁽²⁾	55,640	8,112	16,541	2,264
Net foreign exchange exposure (excluding net foreign exchange exposure in overseas foreign currency investment business)	18,966	2,765	121,145	16,585

Notes: (1) Net foreign exchange exposure of the Group reflects the net amount of on-balance-sheet and off-balance-sheet foreign exchange exposure of the Group.

(2) Should the accounting currency of an overseas operating entity is not Renminbi, net investment of the Group in the overseas operating entity is the net assets denominated in foreign currency held by the overseas branches, subsidiaries and associates or share in net assets as well as goodwill arising from the acquisition of the above subsidiaries and associates. For the purpose of preparing the consolidated financial statements, the difference arising from re-translation of operating results and financial position of the overseas operating entity into Renminbi are recognized under "Foreign currencies translation" as an equity item. The translation difference did not affect the net profit of the Group.

In the first half of 2008, the Bank took active measures including continuous adjustments of interest rates for internal foreign exchange fund transactions, to encourage foreign exchange deposits, control the growth of foreign exchange loans, strengthen the management and optimization of asset and liability portfolio, and control foreign exchange exposure and exchange losses. Accordingly, the foreign exchange exposure declined remarkably.

For the impact of potential reasonable movement of exchange rate of foreign currency against Renminbi on pre-tax profit and equity, please see the following table:

EXCHANGE RATE SENSITIVITY ANALYSIS

In RMB millions

Currency	Increase/decrease of exchange rate of foreign currency against RMB	Impact on profits before tax		Impact on equity	
		At 30 June 2008	At 31 December 2007	At 30 June 2008	At 31 December 2007
USD	+1%	+169	+999	+84	+126
	-1%	-169	-999	-84	-126
HKD	+1%	+24	-151	+144	-24
	-1%	-24	+151	-144	+24

The analysis of sensitivity to exchange rate movement is based on the assumption that the foreign exchange exposure of the Group remains unchanged at the end of the reporting period. The analysis does not take into consideration any risk management activities the management might take to mitigate the impact of currency risk.

Liquidity Risk Management

Liquidity Management

The Bank took active measures to strengthen liquidity management in the first half of 2008. It closely tracked the IPOs, reasonably arranged the inter-bank financing scale and maturity structure, actively applied stress testing and scientifically forecasted liquidity gap. The Bank has invested in an internal fund collection and payment management system to computerize the internal fund management and liquidity management to further improve management efficiency.

Liquidity Risk Analysis

In the first half of 2008, the situation of liquidity surplus was effectively alleviated due to the cumulative effect of tight money policy, deepening adjustment of capital market and reduction of IPO subscription funds.

Facing the potential liquidity risks caused by the factors above, the Bank took the following counter-measures: (1) the Bank adjusted the internal fund transfer price and the deposit and loan rate approval authority of branches in due course according to the interest rate of the external market and development of the loans and deposits business, with a view to adjusting the scale and term structure of assets and liabilities actively and preventing the potential risk arisen from mismatch of maturity; (2) the Bank enhanced the daily management of liquidity, the monitoring of flow of deposits and loans; (3) the Bank strengthened the management and control of foreign currency deposit and loan plans, took efforts to absorb foreign currency deposits and control the growth of foreign currency loans, and maintained reasonable development of international trade finance; (4) the Bank properly arranged the overall maturity profile of interbank placement and managed bond repos to meet temporary demands for foreign exchange liquidity and enhance the flexibility of foreign exchange liquidity management.

The Bank evaluated its liquidity risk profile via liquidity gap analysis. At the end of June 2008, the Bank's liquidity exposures within the period of one year or less were negative while the remaining exposures were positive. The negative exposures with a term of 1–3 months and 3 months–1 year continued to widen mainly because of large increase in the time deposits with a term of less than one year as we saw trends that savings deposits are shifting to time deposits.

At the end of June 2008, the Bank's liquidity exposure analysis is shown as follows:

LIQUIDITY EXPOSURE ANALYSIS

In RMB millions

	At the end of the reporting period							Total
	Overdue/ on demand	Less than 1 month	1-3 months	3 months- 1 year	1-5 years	Over 5 years	Undated	
Net liquidity in the first half of 2008	(4,487,968)	(388,463)	(168,095)	(467,369)	2,784,267	1,760,610	1,520,784	553,766
Net liquidity in 2007	(4,426,085)	(362,557)	(52,450)	64,277	2,487,308	1,664,672	1,168,511	543,676

Note: Please refer to "Note 41 to the Financial Statements: Financial Instruments Risk Management" for details.

Liquidity Regulatory Indicators

At the end of June 2008, the Bank met regulatory requirements in terms of the indicators that reflected the Bank's liquidity risk. Please refer to the "Financial Highlights – Other Financial Indicators" for detailed information.

Internal Control and Operational Risk Management

Internal Control

During the reporting period, the Bank insisted in pushing ahead the building of internal control system and implemented the three-year plan for internal control construction. The Bank continued to optimize the business operation process, apply the business operation guide and improve business operation standards. The Bank thoroughly revised the internal control evaluation system of branches, updated the internal control evaluation information system, and revealed the status of internal control of branches in a complete and accurate manner. The Bank organized special inspections of related party transactions and financial management throughout the Bank to ensure that its operations were in compliance with laws and regulations. The Bank also enhanced the review of compliance of new products, new systems and new processes to improve its operational risk management.

Operational Risk Management

During the first half of 2008, the Bank continued to strengthen the development of operational risk management system and emergency management. The Bank revised regulations on the collection of operational risk loss events statistics, and further defined the statistics standards, segregation of duties and reporting lines. The Bank formulated the administrative measures for operational risk monitoring, and improved the monitoring indicator system. The Bank set up a team for the implementation of operational risk advanced measurement approach (AMA) project, and actively prepared for the project. The Bank accelerated the centralization of its business operations, and pushed forward the intensive reform of regional centers on a trial basis. The Bank also initiated the construction of application systems for local high applicability and non-local disaster recovery, drew up multi-level disaster recovery strategies for different application systems, and refined the information system and business emergency management process.

Anti-money laundering

During the reporting period, the Bank implemented anti-money laundering regulations and made active efforts on anti-money laundering activities. The Bank improved the anti-money laundering system and work mechanism, formulated guidelines and professional administrative measures for anti-money laundering, and established a special and quarterly reporting system and information communication system for key suspicious transactions. The Bank designed an anti-money laundering questionnaire and scoring criteria, and reinforced the assessment and management of overseas correspondent banks and cooperative institutions in terms of anti-money laundering and combat against financing of terrorism. The Bank optimized and updated the anti-money laundering monitoring system, and improved the reporting and submission function of such system. It organized the activities of anti-money laundering training month throughout the Bank, and pushed forward the establishment of a long-term effective mechanism of anti-money laundering training. The Bank also earnestly provided assistance in anti-money laundering inspection and continuously improved the quality and efficiency of inspection assistance. None of the domestic and overseas entities or their employees was found or suspected to be involved in money laundering and financing terrorism during the reporting period.

CAPITAL MANAGEMENT

During the first half of 2008, the Bank formulated capital management system and supporting measures on economic capital management and capital adequacy ratio management, which formed a preliminary capital management framework. The Bank also updated the economic capital measurement criteria and invested in capital management system (CAP V1.0), which realized the automatic computing of economic capital and display of financial statements, greatly improving the sophistication, automation, accuracy and timeliness of economic capital measurement and making remarkable contributions to the enhancement of capital management and application of economic capital.

Capital Adequacy Ratio

The Bank calculated the capital adequacy ratio and core capital adequacy ratio in accordance with the Regulations Governing Capital Adequacy of Commercial Banks promulgated by CBRC and other relevant regulatory requirements. At the end of June 2008, the Bank's capital adequacy ratio and core capital adequacy ratio were 12.46% and 10.33%, respectively, representing a decrease of 0.63 and 0.66 percentage point, respectively, compared with the end of the previous year. The decrease was mainly attributable to the equity investment of the Bank in Standard Bank during the reporting period.

CAPITAL ADEQUACY RATIO

In RMB millions, except for percentages

Item	At 30 June 2008	At 31 December 2007
Core capital:		
Share capital	334,019	334,019
Reserves	168,018	148,631
Minority interests	4,335	5,305
Total core capital	506,372	487,955
Supplementary capital:		
General provision for doubtful debts	60,423	47,979
Long-term subordinated bonds	35,000	35,000
Other supplementary capital	12,344	11,669
Total supplementary capital	107,767	94,648
Total capital base before deductions	614,139	582,603
Deductions:		
Unconsolidated equity investments	17,547	3,868
Goodwill	23,328	1,878
Others	3,126	116
Net capital base	570,138	576,741
Core capital base after deductions	472,708	484,085
Risk weighted assets and market risk capital adjustment	4,575,361	4,405,345
Core capital adequacy ratio	10.33%	10.99%
Capital adequacy ratio	12.46%	13.09%

- Notes: (1) Regulatory indicators are calculated according to the then prevailing regulatory requirements and accounting standards, and no restatement was made to the comparative figures.
- (2) Please refer to "Unaudited Supplementary Financial information: (d) Capital management" for details.

OUTLOOK

Although there are uncertain factors which affect the economy, China's economy is expected to maintain sustainable growth in the second half of 2008. The impact of the US sub-prime mortgage crisis may be aggravated, and the increasing global inflation pressure and slowdown of global economy will pose challenges for China's economic growth. Domestic macro-control is expected to slow down the growth of credit scale of commercial banks. RMB appreciation, reduction of international market demands and rise of production costs will reduce the profitability of certain enterprises, thereby bringing about pressure on the loan quality of commercial banks. In the meanwhile, the downturn of capital market will slow down the development of intermediary businesses of commercial banks which are closely related to the capital market.

In the second half of this year, the Bank will rise to the challenges arising from external environment, and further speed up the strategic transition in pursuit of the maximization of shareholder value and achievement of sustainable growth. The Bank will strive to improve business and market innovation, brand image, customer service, risk control and supporting capability, consolidate and strengthen the advantages of its core business lines in the market, and become a leading international financial institution. The Bank will adopt the following strategies and measures: (1) In line with China's macro-control and industry policy orientation, the Bank will actively adjust credit asset structure, keep optimizing the industry, region and customer structure of credit extension, actively compete for quality credit market, and maintain steady and moderate growth of credit business. (2) The Bank will make great efforts to push forward financial innovation, continuously optimize asset and liability business structure, actively expand the sources of low-cost funds, develop non-credit business and keep increasing the proportion of fee and commission income. (3) The Bank will further improve the comprehensive risk management system, conduct dynamic monitoring, early warning and stress testing of risks, and control various risk limits. (4) The Bank will accelerate the international and diversified operations, expand overseas service network through various modes, enhance the market development capability of overseas operations, seek for a new trail of comprehensive development and diversify asset allocation and income sources. (5) The Bank will endeavor to improve financial services, speed up the upgrade and integration of service channels, and actively reengineer business process. It will further optimize the organizational structure, integrate marketing resources, and establish a customer-centered service marketing system.

Showing Great Love
during the Time of Disaster



Showing Great Love during the Time of Disaster

— by ICBC during the Earthquake Relief

On 12 May 2008, an earthquake with a magnitude of 8.0 on the Richter Scale hit Wenchuan, Sichuan Province. The Bank's branches, such as Sichuan, Gansu, Shaanxi and Chongqing, suffered losses to various extents, and the damage sustained by the Sichuan Branch was particularly serious. Facing such a devastating earthquake, under the strong leadership of the Central Government, the Head Office of the Bank responded quickly to the disaster and coped with the situation in a cool-headed manner, branches in the quake areas fought against the disaster and the danger fearlessly and operations in the non-quake areas offered help and assistance. The entire Bank has united to overcome the difficulties, minimise casualties and losses arising from the disaster and rapidly resume operations of its outlets in the affected areas and provided comprehensive financial services for the purpose of disaster relief in a timely manner. The Bank has assumed the economic and social responsibilities of a large bank at the critical moment.

Quick Response for Disaster Relief

"Disaster is an order, and the quake area is a battle field." Immediately after the earthquake, the Bank initiated an emergency plan and established the leading panel of disaster relief in a timely manner. The Bank had also held numerous special meetings to cope with the difficulties and problems arising from disaster relief and had made arrangements concerning the rapid rescue of trapped people, settlement of employees in affected areas, strengthening of its employees rota for contingency, resumption of operations and the launch of donation campaigns. The Board of Directors and the members of the senior management led working groups into the affected areas in various occasions to provide directions such that the disaster relief work could be carried out in an orderly, efficient and effective manner.



Chairman Mr. Jiang Jianqing (*right*) visited the affected areas to guide the disaster relief work



President Mr. Yang Kaisheng (*second left*) examining the status of the resumption of work at the branches in the affected areas

Facing the disaster, the Bank placed the safety of customers and employees as its top priority. When the earthquake struck, operations in the affected areas quickly arranged for the evacuation of customers and employees, strived to rescue and search for the trapped and missing employees, and provided first aid and medical assistance to injured employees. Due to timely evacuation and rescue, as well as the strengthening of the construction of the operating outlets in recent years, none of our customers and employees lost their lives in the Bank's offices and operating outlets.

When the earthquake struck, members of the management of various levels and employees of branches in the affected areas diligently and selflessly performed their duties and completed the services for the customers before evacuation, and all of them assisted the customers, especially the elderly and the young, to evacuate and safeguarded important items and materials, such as money boxes, vouchers, books and ledgers before evacuation. Pinpointing at the security and safety issue after the earthquake, branches in the affected areas adopted special preventative measures and realised no loss of cash or information, and there were no criminal cases, such as theft and robbery, in the operating outlets.

Resumption of Operations and Services

Facing all the difficulties, such as continuous aftershocks, collapsing building, damage to equipment, water and power shortages and blocked communications, institutions and offices in the affected areas strived to transport equipment and repair transmission lines and facilities. In view of the need to resume its operations, the Bank implemented various kinds of emergency measures, such as increasing the number of automated machines, opening temporary counters, implementing the consolidation of the work from different branches, organizing “mobile banks” and setting up “tent banks” and “movable banks”, thereby becoming the first bank to resume operations in the affected areas. On the day after the earthquake, 583 of the 648 operating outlets of the Sichuan Branch located in the most devastated area had resumed operations, accounting for 90% of all operating outlets in Sichuan. As of 24 May, all of the outlets in the affected areas had resumed operations. Many employees repressed the tremendous grief of losing their family members and their homes and persistently remained at their posts, thus demonstrating the career spirit of professional dedication and sharing of hardships.



Setting up “tent banks” in a timely manner after the disaster

In order to meet the special financial services requirements in the affected areas, the Bank provided special emergency services on account management, payment settlement and credit card business; created complimentary express channels through its operating outlets, online banking and telephone banking for the purpose of collecting donations for the quake areas; established the “Green Channels” for the transfer of fiscal funds and insurance funds to ensure that the relevant funds can be quickly cleared and transferred; initiated emergency procedures for the credit business and facilitated special arrangements for the granting of credit facilities based on the principle of active support and immediate treatment, as well as with the view in financing the disaster relief and reconstruction needs of key customers in the industries of power, telecommunications, highway and railway in the affected areas. As of 30 June, the Bank had granted loans of RMB9.76 billion in relation to disaster relief and reconstruction.

The immediate response and active conduct of the entire Bank during the time of crisis have minimised the adverse impact of the disaster on its operations and demonstrated the Bank’s service capability and augmented its outstanding reputation to the society.



Employees of the Bank actively contributed and donated generously

Donations

After the earthquake, a large-scale donation campaign, unprecedented in the history of the Bank, was initiated. People from the Head Office to the local organisations, from domestic operations to overseas operations, from incumbent employees to retired ex-employees, all participated in an effort to offer help and make donations. As of 30 June, the Bank donated a total of RMB120 million to the affected areas, which includes donations of RMB88.69 million from employees at home and abroad and donations of RMB33.22 million from business units of its domestic and overseas operations. The Bank also donated disaster relief materials worth approximately RMB500,000 to support the affected areas. Many employees voluntarily donated blood at medical institutions in various areas, some of whom joined the volunteers on public holidays to participate in the disaster relief in Beichuan County and the quake lake relief in Tangjashan County. The Bank and its employees earned the respect of the society with their strong sense of social responsibility in the crisis of the country and the nation.

Significant Events

Corporate Governance

Corporate Governance during the Reporting Period and Measures for Improvement

During the reporting period, the Bank strictly complied with the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Law of the People's Republic of China on Commercial Banks and other relevant laws, and continued to improve its corporate governance structure in accordance with relevant laws and regulations promulgated by regulatory authorities:

1. Optimizing the corporate governance system. During the reporting period, the Bank revised the "Working Rules of the Audit Committee of the Board of Directors of Industrial and Commercial Bank of China" and formulated the "Mechanism for Annual Report Work for Independent Directors of Industrial and Commercial Bank of China Limited".
2. Promoting the development of a risk management system. The Bank formulated the "Comprehensive Risk Management Framework of Industrial and Commercial Bank of China Limited" and "The New Capital Implementation Plan of Industrial and Commercial Bank of China", and further improved the integrated, thorough and quantitative risk management system.
3. Strengthening the internal audit functions. The Board of Directors reviewed and approved the Internal Audit Plan for 2008 and devised a comprehensive plan regarding the targets, plans and objectives of internal audit in 2008, such that the internal audit may cover all of the transactions, institutions and risk control procedures of the entire Bank.
4. Furthering the development of the internal control system. The Bank strengthened its operational risk management and compliance management, conducted self-evaluation on internal controls and completed the first self-evaluation report on internal controls in 2007, which had been publicly disclosed.

Compliance with the Code of Corporate Governance Practices (Appendix 14 to the Hong Kong Listing Rules)

During the reporting period, the Bank fully complied with all the principles and code provisions stipulated in the Code of Corporate Governance Practices (Appendix 14 to the Hong Kong Listing Rules).

Profits and Dividends Distribution

With the approval of the 2007 Annual General Meeting held on 5 June 2008, the Bank distributed cash dividends of a total of RMB44,425 million, or RMB1.33 per ten shares (including taxes), for the period from 1 January 2007 to 31 December 2007 to the shareholders who appeared on the register of shareholders as of 17 June 2008. The Bank will not declare any interim dividends for the interim period of 2008, nor will it convert any reserve to share capital.

Use of Proceeds from the IPO

The funds raised from the Bank's IPO were used for the purpose disclosed in the IPO prospectus, being strengthening the capital base of the Bank to support the ongoing growth of the Bank's operations.

Use of Funds not Raised from the IPO

During the reporting period, the Bank did not have any material investment of funds not raised from the IPO.

Material Legal Proceedings and Arbitration

The Bank was involved in legal proceedings in the ordinary course of business. Most of these legal proceedings involved enforcement claims initiated by the Bank. In addition, some legal proceedings were arisen from customer disputes. As of 30 June 2008, the amount of material pending proceedings which the Bank and/or its subsidiaries was/were defendant totaled RMB2,799 million. The Bank does not expect any material adverse effect from the above-mentioned legal proceedings on the Bank's business, financial position or operational results.

Material Asset Acquisition, Disposal and Merger

The Bank's acquisition of 20% shareholding in Standard Bank, the acquisition of the shares in Seng Heng Bank and the acquisition of shares and warrants issued by ICBC (Asia) were disclosed in the 2007 Annual Report. The temporary announcements about the completion of the foregoing three transactions were published in the *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 4 March, 29 January and 25 January of 2008, respectively.

Connected Transactions

Connected Transactions as Defined by the SSE Listing Rules

Connected Transactions with Goldman Sachs and SSF

Pursuant to the provisions of the SSE Listing Rules, both Goldman Sachs and SSF are connected parties of the Bank. Please refer to the relevant content of "Note 39 to the Financial Statements: Related Party Disclosures" for specific content of the connected transactions with Goldman Sachs and SSF during the reporting period. These transactions were carried out in the usual business of the Bank and on normal commercial terms, fulfilled the principle of honesty and good faith and will not affect the independence of the Bank.

Connected Transactions as Defined by Accounting Standards

Please refer to the relevant content of "Note 39 to the Financial Statements: Related Party Disclosures" for specific content of the connected transactions with MOF, Huijin and other connected parties.

Material Contracts and Performance of Obligations thereunder

Material Trust, Sub-Contract and Lease

During the reporting period, the Bank has not held on trust to a material extent or entered into any material sub-contract or lease arrangement in respect of assets of other corporations, and no other corporation has held on trust to a material extent or entered into any material sub-contract or lease arrangement in respect of the Bank's assets.

Material Guarantees

The provision of guarantees belongs to the usual business of the Bank. During the reporting period, the Bank did not have any material guarantees that needed to be disclosed except for the financial guarantee services within the business scope as approved by PBOC and CBRC.

Material Events Concerning Entrusting Other Persons for Cash Management

No such matters concerning entrusting other persons for cash management occurred during the reporting period.

Funds Held by Substantial Shareholders

No funds were held by substantial shareholders in the Bank.

Commitments Made by the Bank or its Shareholders Holding 5% Shares or Above

During the reporting period, the shareholders did not make any new commitments. The commitments in the reporting period were the same as those disclosed in the 2006 Annual Report. As of 30 June 2008, all of the commitments made by shareholders were properly fulfilled.

Commitments Made by the Shareholders Holding 5% Shares or Above in relation to Additional Shares subject to Restrictions on Sale

None.

Sanctions Imposed on the Bank and its Directors, Supervisors and Members of the Senior Management

During the reporting period, neither the Bank nor any of its directors, supervisors or members of the senior management was subject to any investigation by competent authorities, compulsory enforcement by judicial and disciplinary authorities, transfer to judicial department or pursuit of criminal responsibilities, investigation, censure or administrative penalty by CSRC, prohibition of securities market access, punishment by other administrative departments for improper personnel engagement or public reprimand by the stock exchanges.

Purchase, Sale or Redemption of Shares

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

Securities Transactions of Directors and Supervisors

During the reporting period, the Bank made reasonable enquiries with all directors and supervisors, and they all have complied with the provisions in relation to securities transactions of directors and supervisors as set forth in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules.

Interests in Shares, Underlying Shares, and Debentures Held by Directors and Supervisors

As of 30 June 2008, none of the directors or supervisors of the Bank had any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (as defined in Part XV of the Hong Kong Securities and Futures Ordinance) which have to be notified to the Bank and SEHK under Divisions 7 and 8 of Part XV of the Hong Kong Securities and Futures Ordinance (including interests or short positions therein that they shall be deemed to have pursuant to such provisions of the Hong Kong Securities and Futures Ordinance), or any interests or short positions which have to be recorded in the register under Section 352 of the Hong Kong Securities and Futures Ordinance, or any interests or short positions which have to be notified to the Bank and SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules.

Review of the Interim Financial Report

The 2008 interim financial statements prepared by the Bank in accordance with CASs and IFRSs have been reviewed by Ernst & Young Hua Ming and Ernst & Young in accordance with Chinese and international standards on review engagements, respectively. The interim financial report has been reviewed by the Audit Committee of the Board of Directors.

Other Major Events

SECURITIES INVESTMENT

S/N	Stock (Fund) Code	Short name	Holding at the end of the period (in 10,000)	Initial investment cost (in RMB)	Book value at the end of the period (in RMB)	Book value at beginning of the period (in RMB)	Accounts
1	966 (Hong Kong, PRC)	CHINA INSURANCE	9,746.49	346,167,829	1,592,533,942	1,971,329,542	Available-for-sale investment
2	485105	ICBCCS Enhanced Income Bond Fund A	14,186.32	150,000,000	155,325,974	157,510,667	Available-for-sale investment
3	601998	CNCB	2,586.20	149,999,600	132,672,060	262,499,300	Available-for-sale investment
4	600744	HHEP	2,982.64	30,000,000	128,253,606	240,997,316	Available-for-sale investment
5	601600	CHALCO	918.19	10,000,000	119,731,976	361,675,041	Available-for-sale investment
6	600216	ZMC	479.00	3,513,203	99,200,900	92,926,000	Available-for-sale investment
7	1688 (Hong Kong, PRC)	Alibaba	1,002.80	131,782,620	95,419,336	264,332,169	Available-for-sale investment
8	481001	ICBCCS Core Value Equity Fund	7,260.65	20,000,000	55,376,971	79,598,496	Available-for-sale investment
9	000430	ZTDC	612.00	2,000,000	38,311,200	67,993,200	Available-for-sale investment
10	3988 (Hong Kong, PRC)	BOC	1,000.00	29,029,844	30,427,825	35,208,307	Financial assets held for trading
Total			—	872,493,096	2,447,253,790	3,534,070,038	—

Notes: (1) The share and fund investments listed in this table represent the securities investment calculated by the Bank according to the available-for-sale and trading financial assets in the consolidated balance sheet by the end of 2008 interim reporting period, including the investments of the share issued by other listed companies and open-end fund or close-end fund (top 10 by the book value at the end of the period).

(2) The shares of CIH, Alibaba and BOC were held by ICBC (Asia), a subsidiary controlled by the Bank. ICBCCS Enhanced Income Bond Fund A and ICBCCS Core Value Equity Fund were held by our wholly-owned subsidiary, ICBC Credit Suisse Asset Management.

SHARES OF UNLISTED FINANCIAL INSTITUTIONS

Company	Initial investment cost (in RMB)	Shares held (in 10,000)	Percentage of total shares (%)	Book value at period-end (in RMB)
TaiPing Insurance Company Ltd.	172,585,678	N/A	7.93	62,315,054
Xiamen International Bank	102,301,500	N/A	18.75	102,301,500
China UnionPay Co., Ltd.	90,000,000	9,000.00	5.45	90,000,000
Guangdong Development Bank	52,465,475	2,379.22	0.21	52,465,475
China Ping An Insurance (HK) Co., Ltd.	14,134,025	27.50	25.00	32,728,519
Joint Electronic Teller Services Ltd.	10,158,374	0.0024	0.03	9,707,306
Yueyang City Commercial Bank	3,500,000	353.64	1.59	3,500,000
Luen Fung Hang Insurance Co., Ltd.	1,518,440	2.40	6.00	1,480,619
Guilin City Commercial Bank	420,000	113.61	0.28	420,000
Nanchang City Commercial Bank	300,000	39.00	0.03	390,000
Total	447,383,492	—	—	355,308,473

Note: The shares of TaiPing Insurance Company Ltd. and China Ping An Insurance (HK) Co., Ltd. were held by ICBC (Asia), a subsidiary controlled by the Bank. The shares of Joint Electronic Teller Services Ltd. were held by ICBC (Asia), a subsidiary controlled by the Bank and Seng Heng Bank, the latter of which also holds the shares of Luen Fung Hang Insurance Co., Ltd..



Unaudited Interim Condensed Consolidated Financial Statements

- Report on Review of Interim Financial Information**
- Unaudited Interim Condensed Consolidated Financial Statements**
- Unaudited Supplementary Financial Information**

Report on Review of Interim Financial Information



18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

To the board of directors of Industrial and Commercial Bank of China Limited

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

Introduction

We have reviewed the interim financial information set out on pages 75 to 150, which comprises the condensed consolidated balance sheet of Industrial and Commercial Bank of China Limited and its subsidiaries as at 30 June 2008 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "*Interim Financial Reporting*" ("IAS 34") issued by the International Accounting Standards Board.

The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong
21 August 2008

Unaudited Interim Condensed Consolidated Income Statement

For the six months ended 30 June 2008
(In RMB millions, unless otherwise stated)

	Notes	Six months ended 30 June	
		2008 (unaudited)	2007 (unaudited)
Interest income	3	215,011	163,798
Interest expense	3	(83,226)	(61,589)
NET INTEREST INCOME	3	131,785	102,209
Fee and commission income	4	25,470	17,210
Fee and commission expense	4	(990)	(673)
NET FEE AND COMMISSION INCOME	4	24,480	16,537
Net trading income	5	1,333	932
Net loss on financial assets and liabilities designated at fair value through profit or loss	6	(288)	(888)
Net gain/(loss) on financial investments	7	(869)	161
Other operating loss, net	8	(1,485)	(1,362)
OPERATING INCOME		154,956	117,589
Operating expenses	9	(53,193)	(43,592)
Impairment losses on:			
Loans and advances to customers	20	(13,648)	(14,769)
Others	10	(4,667)	(632)
OPERATING PROFIT		83,448	58,596
Share of profits and losses of associates		963	7
PROFIT BEFORE TAX		84,411	58,603
Income tax expense	11	(19,532)	(17,213)
PROFIT FOR THE PERIOD		64,879	41,390
Attributable to:			
Equity holders of the parent company		64,531	41,036
Minority interests		348	354
		64,879	41,390
DIVIDEND	12	44,425	5,344
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY			
— Basic and diluted (RMB yuan)	13	0.19	0.12

Unaudited Interim Condensed Consolidated Balance Sheet

30 June 2008

(In RMB millions, unless otherwise stated)

	Notes	30 June 2008 (unaudited)	31 December 2007 (audited)
ASSETS			
Cash and balances with central banks	14	1,484,522	1,142,346
Due from banks and other financial institutions	15	164,638	199,758
Financial assets held for trading	16	41,106	31,536
Financial assets designated at fair value through profit or loss	17	2,633	2,785
Derivative financial assets	18	25,354	22,769
Reverse repurchase agreements	19	59,182	75,880
Loans and advances to customers	20	4,233,318	3,957,542
Financial investments	21	3,150,014	3,073,007
Investments in associates	22	32,995	172
Property and equipment	23	78,340	80,266
Deferred income tax assets	24	7,118	5,833
Other assets	25	120,164	91,818
TOTAL ASSETS		9,399,384	8,683,712
LIABILITIES			
Financial liabilities designated at fair value through profit or loss	26	9,122	15,590
Derivative financial liabilities	18	8,841	7,127
Due to banks and other financial institutions	27	867,292	805,174
Repurchase agreements	28	186,636	193,508
Certificates of deposit		528	562
Due to customers	29	7,538,748	6,898,413
Income tax payable		19,769	33,668
Deferred income tax liabilities	24	158	337
Subordinated bonds	30	35,000	35,000
Other liabilities	31	179,524	150,657
TOTAL LIABILITIES		8,845,618	8,140,036
EQUITY			
Equity attributable to equity holders of the parent company			
Issued share capital	32	334,019	334,019
Reserves	33	149,250	158,204
Retained profits		66,162	46,148
		549,431	538,371
Minority interests		4,335	5,305
TOTAL EQUITY		553,766	543,676
TOTAL EQUITY AND LIABILITIES		9,399,384	8,683,712

Jiang Jianqing
Chairman

Yang Kaisheng
Vice Chairman and President

Shen Rujun
General Manager of Finance
and Accounting Department

Unaudited Interim Condensed Consolidated Statement of Changes In Equity

For the six months ended 30 June 2008
(In RMB millions, unless otherwise stated)

	Attributable to equity holders of the parent company													
	Reserves												Minority interests	Total equity
	Issued share capital	Capital reserve	Surplus reserves	General reserve	Investment revaluation reserve	Foreign currency translation reserve	Cash flow hedge reserve	Other reserves	Subtotal	Retained profits	Total			
Balance as at 1 January 2008	334,019	106,312	13,536	40,834	(1,389)	(1,089)	—	—	158,204	46,148	538,371	5,305	543,676	
Net change in the fair value of available-for-sale investments	—	—	—	—	(4,103)	—	—	—	(4,103)	—	(4,103)	(273)	(4,376)	
Reserve realised on disposal/impairment of available-for-sale investments	—	—	—	—	1,618	—	—	—	1,618	—	1,618	(2)	1,616	
Net loss on cash flow hedges	—	—	—	—	—	—	(4,080)	—	(4,080)	—	(4,080)	—	(4,080)	
Foreign currency translation	—	—	—	—	—	(2,901)	—	—	(2,901)	—	(2,901)	(247)	(3,148)	
Share of changes recognised directly in equity of associates	—	—	—	—	7	86	101	226	420	—	420	—	420	
Total income and expense for the period recognised directly in equity	—	—	—	—	(2,478)	(2,815)	(3,979)	226	(9,046)	—	(9,046)	(522)	(9,568)	
Profit for the period	—	—	—	—	—	—	—	—	—	64,531	64,531	348	64,879	
Total income and expense for the period	—	—	—	—	(2,478)	(2,815)	(3,979)	226	(9,046)	64,531	55,485	(174)	55,311	
Dividend — 2007 final (note 12)	—	—	—	—	—	—	—	—	—	(44,425)	(44,425)	—	(44,425)	
Appropriation to surplus reserves (i)	—	—	74	—	—	—	—	—	74	(74)	—	—	—	
Appropriation to general reserve (ii)	—	—	—	18	—	—	—	—	18	(18)	—	—	—	
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	368	368	
Change in shareholdings in a subsidiary	—	—	—	—	—	—	—	—	—	—	—	(878)	(878)	
Dividends to minority shareholders	—	—	—	—	—	—	—	—	—	—	—	(286)	(286)	
Balance as at 30 June 2008 (unaudited)	334,019	106,312	13,610	40,852	(3,867)	(3,904)	(3,979)	226	149,250	66,162	549,431	4,335	553,766	

- (i) Includes the appropriation made by overseas branches and subsidiaries in the amount of RMB2 million and RMB72 million, respectively.
- (ii) Represents the appropriation made by a subsidiary.

Unaudited Interim Condensed Consolidated Statement of Changes In Equity

For the six months ended 30 June 2008
(In RMB millions, unless otherwise stated)

	Attributable to equity holders of the parent company										
	Reserves						Subtotal	Retained profits	Total	Minority interests	Total equity
	Issued share capital	Capital reserve	Surplus reserves	General reserve	Investment revaluation reserve	Foreign currency translation reserve					
Balance as at 1 January 2007	334,019	106,312	5,464	12,719	2,142	(351)	126,286	6,159	466,464	4,537	471,001
Net change in the fair value of available-for-sale investments	—	—	—	—	(3,916)	—	(3,916)	—	(3,916)	63	(3,853)
Reserve realised on disposal of available-for-sale investments	—	—	—	—	(22)	—	(22)	—	(22)	—	(22)
Foreign currency translation	—	—	—	—	—	(195)	(195)	—	(195)	(108)	(303)
Total income and expense for the period recognised directly in equity	—	—	—	—	(3,938)	(195)	(4,133)	—	(4,133)	(45)	(4,178)
Profit for the period	—	—	—	—	—	—	—	41,036	41,036	354	41,390
Total income and expense for the period	—	—	—	—	(3,938)	(195)	(4,133)	41,036	36,903	309	37,212
Dividend — 2006 final (note 12)	—	—	—	—	—	—	—	(5,344)	(5,344)	—	(5,344)
Appropriation to surplus reserves (i)	—	—	3	—	—	—	3	(3)	—	—	—
Appropriation to general reserve (i)	—	—	—	11	—	—	11	(11)	—	—	—
Dividends to minority shareholders	—	—	—	—	—	—	—	—	—	(147)	(147)
Balance as at 30 June 2007 (unaudited)	334,019	106,312	5,467	12,730	(1,796)	(546)	122,167	41,837	498,023	4,699	502,722

(i) Represents the appropriation made by a subsidiary.

Unaudited Interim Condensed Consolidated Statement of Changes In Equity
For the six months ended 30 June 2008
(In RMB millions, unless otherwise stated)

	Attributable to equity holders of the parent company										
	Reserves						Subtotal	Retained profits	Total	Minority interests	Total equity
	Issued share capital	Capital reserve	Surplus reserves	General reserve	Investment revaluation reserve	Foreign currency translation reserve					
Balance as at 1 July 2007	334,019	106,312	5,467	12,730	(1,796)	(546)	122,167	41,837	498,023	4,699	502,722
Net change in the fair value of available-for-sale investments	—	—	—	—	(1,842)	—	(1,842)	—	(1,842)	326	(1,516)
Reserve recognised on disposal/impairment of available-for-sale investments	—	—	—	—	2,249	—	2,249	—	2,249	65	2,314
Foreign currency translation	—	—	—	—	—	(543)	(543)	—	(543)	(261)	(804)
Total income and expense for the period recognised directly in equity	—	—	—	—	407	(543)	(136)	—	(136)	130	(6)
Profit for the period	—	—	—	—	—	—	—	40,484	40,484	380	40,864
Total income and expense for the period	—	—	—	—	407	(543)	(136)	40,484	40,348	510	40,858
Appropriation to surplus reserves (i)	—	—	8,069	—	—	—	8,069	(8,069)	—	—	—
Appropriation to general reserve (ii)	—	—	—	28,104	—	—	28,104	(28,104)	—	—	—
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	9	9
Change in shareholdings in a subsidiary	—	—	—	—	—	—	—	—	—	338	338
Dividends to minority shareholders	—	—	—	—	—	—	—	—	—	(251)	(251)
Balance as at 31 December 2007 (audited)	334,019	106,312	13,536	40,834	(1,389)	(1,089)	158,204	46,148	538,371	5,305	543,676

- (i) Includes the appropriation made by overseas branches in the amount of RMB7 million in aggregate.
(ii) Includes the appropriation made by a subsidiary in the amount of RMB22 million.

Unaudited Interim Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008
(In RMB millions, unless otherwise stated)

	Notes	Six months ended 30 June	
		2008 (unaudited)	2007 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		84,411	58,603
Adjustments for:			
Share of profits and losses of associates		(963)	(7)
Depreciation	9	4,045	4,275
Amortisation	9	638	577
Amortisation of financial investments		2,375	2,473
Impairment losses on loans and advances to customers	20	13,648	14,769
Impairment losses on assets other than loans and advances to customers	10	4,667	632
Foreign exchange difference		9,453	2,975
Interest expense on subordinated bonds	3	617	573
Accreted interest on impaired loans	3	(694)	(859)
Loss/(gain) on disposal of available-for-sale investments, net	7	904	(143)
Net trading loss on equity investments	5	3	3
Net gain on disposal of property and equipment and other assets (other than repossessed assets)		(168)	(818)
Dividend income	7	(35)	(18)
		118,901	83,035
Net decrease/(increase) in operating assets:			
Due from central banks		(307,419)	(184,947)
Due from banks and other financial institutions		1,748	37,658
Financial assets held for trading		(2,317)	(15,715)
Financial assets designated at fair value through profit or loss		54	62
Reverse repurchase agreements		19,438	(50,581)
Loans and advances to customers		(306,736)	(299,986)
Other assets		(23,817)	(28,724)
		(619,049)	(542,233)
Net increase/(decrease) in operating liabilities:			
Financial liabilities designated at fair value through profit or loss		(6,077)	(1,289)
Due to banks and other financial institutions		67,010	392,013
Repurchase agreements		(2,006)	36,961
Certificates of deposit		(10)	(1,744)
Due to customers		636,605	372,295
Other liabilities		34,721	(20,796)
		730,243	777,440
Net cash inflow from operating activities before tax		230,095	318,242
Income tax paid		(33,963)	(17,263)
Net cash inflow from operating activities		196,132	300,979

Unaudited Interim Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008
(In RMB millions, unless otherwise stated)

	Notes	Six months ended 30 June	
		2008 (unaudited)	2007 (unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment and other assets		(2,717)	(1,866)
Proceeds from disposal of property and equipment and other assets (other than repossessed assets)		381	807
Purchases of financial investments		(821,506)	(855,628)
Proceeds from sale and redemption of investments		722,437	620,268
Acquisition of a subsidiary	34(a)	2,261	—
Acquisition of minority interests		(1,783)	—
Acquisition of an associate		(37,420)	—
Dividends received		85	25
Net cash outflow from investing activities		(138,262)	(236,394)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution by minority shareholders		66	—
Interest paid on subordinated bonds		(183)	(575)
Dividends paid on ordinary shares		(44,425)	(15,490)
Dividends paid to minority shareholders		(208)	(131)
Net cash outflow from financing activities		(44,750)	(16,196)
NET INCREASE IN CASH AND CASH EQUIVALENTS		13,120	48,389
Cash and cash equivalents at beginning of the period		301,687	275,360
Effect of exchange rate changes on cash and cash equivalents		(8,270)	(2,710)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	34(b)	306,537	321,039
NET CASH INFLOW FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		205,361	147,154
Interest paid		(67,019)	(53,745)

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

1. CORPORATE INFORMATION

Industrial and Commercial Bank of China Limited (the "Bank"), formerly a wholly-state-owned commercial bank, was founded on 1 January 1984. Its establishment was authorised by the State Council and the People's Bank of China (the "PBOC") of the People's Republic of China (the "PRC"). The Bank is a listed company with shares listed on both The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange. The registered office of the Bank is located at No. 55 Fuxingmennei Avenue, Xicheng District, Beijing, the PRC.

The Bank had established 35 tier-1 and directly controlled branches in Mainland China, and other branches overseas. The Bank and its subsidiaries are collectively referred to as the Group. Particulars of the Bank's principal subsidiaries are set out in note 2 to the unaudited interim condensed consolidated financial statements.

The principal activities of the Group comprise the provision of banking services including Renminbi ("RMB") and foreign currency deposits, loans, payment and settlement services, other services as approved by the China Banking Regulatory Commission (the "CBRC") of the PRC, as well as the provision of related services by its overseas establishments as approved by the respective local regulators.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

These interim condensed consolidated financial statements for the six months ended 30 June 2008 have been prepared in accordance with International Accounting Standard ("IAS") 34 "*Interim Financial Reporting*".

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2007.

Accounting judgements and estimates

The preparation of interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and key sources of uncertainty were the same as those applied in the preparation of the consolidated financial statements for the year ended 31 December 2007.

Basis of consolidation

Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet separately from the equity attributable to equity holders of the parent company. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the net assets acquired is recognised as goodwill.

Particulars of the Bank's principal subsidiaries as at the balance sheet date are as follows:

Name	Percentage of equity interest directly attributable to the Bank		Nominal value of issued share/paid-up capital	Place of incorporation/ registration and operations	Principal activities
	30 June 2008	31 December 2007			
	%	%			
Industrial and Commercial Bank of China (Asia) Limited ("ICBC (Asia)")	71.7	63.0	HK\$2,539.97 million	Hong Kong, the PRC	Commercial banking
Industrial and Commercial International Capital Limited	100.0	100.0	HK\$280 million	Hong Kong, the PRC	Commercial banking
JSC Industrial and Commercial Bank of China Almaty	100.0	100.0	US\$10 million	Almaty, Kazakhstan	Commercial banking
ICEA Finance Holdings Limited	75.0	75.0	US\$20 million	British Virgin Islands and Hong Kong	Investment banking
ICBC (London) Limited	100.0	100.0	US\$200 million	London, United Kingdom	Commercial banking
ICBC Credit Suisse Asset Management Co., Ltd	55.0	55.0	RMB200 million	Beijing, the PRC	Fund management
Industrial and Commercial Bank of China, Luxembourg S.A.	100.0	100.0	US\$18.50 million	Luxembourg	Commercial banking
PT. Bank ICBC Indonesia	90.0	90.0	Rupiah100,000 million	Indonesia	Commercial banking
ZAO Industrial and Commercial Bank of China (Moscow)	100.0	100.0	Ruble1,000 million	Moscow, Russia	Commercial banking
ICBC Financial Leasing Co., Ltd.	100.0	100.0	RMB2,000 million	Tianjin, the PRC	Financial leasing company
Seng Heng Bank Limited ("Seng Heng Bank") (note 34(a))	79.9	—	MOP150 million	Macau, the PRC	Commercial banking
Industrial and Commercial Bank of China (Middle East) Limited	100.0	—	US\$50 million	Dubai, United Arab Emirates	Commercial banking and investment banking

The above table lists the principal subsidiaries of the Bank. To give details of other subsidiaries would, in the opinion of the management, result in particulars of excessive length.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

Significant accounting policies

The International Accounting Standards Board has issued certain new and revised International Financial Reporting Standards ("IFRSs"), including IFRIC interpretation 11 "*IFRS 2 — Group and Treasury Share Transaction*", IFRIC interpretation 12 "*Service Concession Arrangement*" and IFRIC interpretation 14 "*IAS 19 — The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction*", which are first effective for the current period of the Group, but have no impact on the Group's financial statements. The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

3. NET INTEREST INCOME

	Six months ended 30 June	
	2008 (unaudited)	2007 (unaudited)
Interest income on:		
Loans and advances to customers	148,417	109,925
Due from central banks	10,390	6,397
Due from banks and other financial institutions	4,680	4,655
Financial investments	51,524	42,821
	215,011	163,798
Interest expense on:		
Due to customers	(73,231)	(54,255)
Due to banks and other financial institutions	(9,378)	(6,761)
Subordinated bonds	(617)	(573)
	(83,226)	(61,589)
Net interest income	131,785	102,209

The above interest income and expenses were related to financial instruments which are not at fair value through profit or loss.

Included in interest income on loans and advances to customers for the period is an amount of RMB694 million (six months ended 30 June 2007: RMB859 million) with respect to the accreted interest on impaired loans.

4. NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2008 (unaudited)	2007 (unaudited)
Settlement, clearing business and cash management	6,821	4,367
Personal wealth management and private banking services	6,095	5,939
Investment banking business	4,822	2,345
Bank card business	3,197	2,477
Corporate wealth management services	1,458	486
Assets fiduciary activities	1,257	439
Guarantee and commitment business	1,116	344
Trust and agency services	406	319
Others	298	494
Fee and commission income	25,470	17,210
Fee and commission expense	(990)	(673)
Net fee and commission income	24,480	16,537

Included in fee and commission income above is an amount of RMB2,104 million (six months ended 30 June 2007: RMB694 million) with respect to trust and other fiduciary activities.

5. NET TRADING INCOME

	Six months ended 30 June	
	2008 (unaudited)	2007 (unaudited)
Debt securities	1,226	476
Equity investments	(3)	(3)
Derivatives	110	459
	1,333	932

6. NET LOSS ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Six months ended 30 June	
	2008 (unaudited)	2007 (unaudited)
Financial assets	(24)	65
Financial liabilities	(264)	(953)
	(288)	(888)

The above amounts represent gains and losses arising from the buying and selling, interest income and expense on and changes in the fair value of financial assets and liabilities designated at fair value through profit or loss upon initial recognition.

7. NET GAIN/(LOSS) ON FINANCIAL INVESTMENTS

	Six months ended 30 June	
	2008 (unaudited)	2007 (unaudited)
Dividend income from unlisted investments	34	18
Dividend income from listed investments	1	—
Gain/(loss) on disposal of available-for-sale investments, net	(904)	143
	(869)	161

8. OTHER OPERATING LOSS, NET

	Six months ended 30 June	
	2008 (unaudited)	2007 (unaudited)
Loss from foreign exchange and foreign exchange products, net	(2,832)	(2,819)
Net gain on disposal of property and equipment, repossessed assets and others	602	818
Sundry bank charge income	74	99
Others	671	540
	(1,485)	(1,362)

9. OPERATING EXPENSES

	Six months ended 30 June	
	2008 (unaudited)	2007 (unaudited)
Staff costs:		
Salaries and bonuses	18,960	14,021
Contributions to defined contribution schemes	2,652	2,293
Other staff benefits	6,896	5,505
	28,508	21,819
Premises and equipment expenses:		
Depreciation	4,045	4,275
Minimum lease payments under operating leases in respect of land and buildings	1,094	973
Repairs and maintenance charges	651	992
Utility expenses	723	659
	6,513	6,899
Amortisation	638	577
Other administrative expenses	5,963	5,314
Business tax and surcharges	9,094	6,638
Others	2,477	2,345
	53,193	43,592

10. IMPAIRMENT LOSSES ON ASSETS OTHER THAN LOANS AND ADVANCES TO CUSTOMERS

	Six months ended 30 June	
	2008 (unaudited)	2007 (unaudited)
Charge/(reversal) of impairment losses on:		
Due from banks and other financial institutions	(91)	—
Financial investments:		
Held-to-maturity debt securities	512	10
Available-for-sale investments	4,036	—
Property and equipment	—	431
Other assets	210	191
	4,667	632

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

11. INCOME TAX EXPENSE

The PRC income tax has been provided at the statutory rate of 25% (six months ended 30 June 2007: 33%) in accordance with the relevant tax laws in Mainland China during the period. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries/regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2008 (unaudited)	2007 (unaudited)
Current income tax expense:		
PRC		
— Mainland China	20,766	19,012
— Hong Kong and Macau	209	169
Overseas	41	42
	21,016	19,223
Adjustment in respect of current income tax of prior periods	(1,002)	(1,890)
	20,014	17,333
Deferred income tax credit (note 24)	(482)	(120)
Total income tax expense for the period	19,532	17,213

A reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate of 25% (six months ended 30 June 2007: 33%) to income tax expense at the Group's effective income tax rate is as follows:

	Six months ended 30 June	
	2008 (unaudited)	2007 (unaudited)
Profit before tax	84,411	58,603
Tax at the PRC statutory income tax rate	21,103	19,339
Non-deductible expenses:		
Impairment provision and write-offs	1,199	1,782
Others	794	368
	1,993	2,150
Non-taxable income:		
Income arising from bonds exempted from income tax	(2,191)	(2,203)
Others	(371)	(183)
	(2,562)	(2,386)
Adjustment in respect of current income tax of prior periods	(1,002)	(1,890)
Tax expense at the Group's effective income tax rate	19,532	17,213

12. DIVIDEND

	Six months ended 30 June	
	2008 (unaudited)	2007 (unaudited)
Dividends on ordinary shares declared and paid:		
— Final dividend for 2007: RMB0.133 per share (2006: RMB0.016 per share)	44,425	5,344

13. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

The calculation of basic and diluted earnings per share is based on the following:

	Six months ended 30 June	
	2008 (unaudited)	2007 (unaudited)
Earnings:		
Profit for the period attributable to equity holders of the parent company	64,531	41,036
Shares:		
Weighted average number of ordinary shares in issue (million)	334,019	334,019
Earnings per share (RMB yuan)	0.19	0.12

There was no difference between the basic and diluted earnings per share as there were no dilutive events during the six months ended 30 June 2007 and 2008.

14. CASH AND BALANCES WITH CENTRAL BANKS

	30 June 2008 (unaudited)	31 December 2007 (audited)
	Cash on hand	42,904
Balances with central banks other than restricted deposits	114,294	83,328
Unrestricted cash and balances with central banks	157,198	122,451
Mandatory reserve deposits with central banks	1,222,182	947,236
Other restricted deposits with central banks	105,142	72,659
Restricted balances with central banks	1,327,324	1,019,895
	1,484,522	1,142,346

The Group is required to place mandatory reserve deposits and other restricted deposits with the PBOC and certain central banks of overseas countries or regions where it has operations. Mandatory reserve deposits with central banks and other restricted deposits are not available for use in the Group's daily operations.

As at 30 June 2008, the required mandatory deposit reserve ratios set by the PBOC in respect of customer deposits denominated in RMB and foreign currencies were 17.5% (31 December 2007: 14.5%) and 5% (31 December 2007: 5%), respectively.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

15. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2008 (unaudited)	31 December 2007 (audited)
Nostro accounts:		
Banks operating in Mainland China	15,966	11,380
Other financial institutions operating in Mainland China	2,568	469
Banks operating outside Mainland China	18,652	17,591
	37,186	29,440
Allowance for impairment losses	(35)	(34)
	37,151	29,406
Placements with banks and other financial institutions:		
Banks operating in Mainland China	20,322	15,879
Other financial institutions operating in Mainland China	6,501	5,884
Banks operating outside Mainland China	100,728	148,745
	127,551	170,508
Allowance for impairment losses	(64)	(156)
	127,487	170,352
	164,638	199,758

Included in nostro accounts and placements with banks and other financial institutions as at 30 June 2008 are balances with original maturity of three months or less in the amount of RMB36,514 million (30 June 2007: RMB19,665 million) and RMB100,632 million (30 June 2007: RMB155,704 million), respectively, which have been included in cash and cash equivalents in the interim condensed consolidated cash flow statement (note 34(b)).

Movements of allowance for impairment losses during the period/year are as follows:

	Nostro accounts	Placements with banks and other financial institutions	Total
At 1 January 2007	31	145	176
Charge for the year	3	19	22
Write-offs	—	(8)	(8)
At 31 December 2007 and 1 January 2008 (audited)	34	156	190
Charge/(reversal) for the period	1	(92)	(91)
At 30 June 2008 (unaudited)	35	64	99

16. FINANCIAL ASSETS HELD FOR TRADING

	30 June 2008 (unaudited)	31 December 2007 (audited)
Debt securities	41,076	31,501
Equity investments	30	35
	41,106	31,536
Debt securities analysed into:		
Listed in Hong Kong	132	1
Listed outside Hong Kong	1,659	650
Unlisted	39,285	30,850
	41,076	31,501

The equity investments are all listed in Hong Kong.

17. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2008 (unaudited)	31 December 2007 (audited)
Debt securities	2,633	2,785
Debt securities analysed into:		
Listed in Hong Kong	62	76
Listed outside Hong Kong	1,822	1,812
Unlisted	749	897
	2,633	2,785

18. DERIVATIVE FINANCIAL INSTRUMENTS

A derivative is a financial instrument, the value of which is derived from the value of another “underlying” financial instrument, an index or some other variables. Typically, an “underlying” financial instrument is a share, commodity or bond price, an index value or an exchange or interest rate. The Group uses derivative financial instruments including forwards, futures, swaps and options.

The notional amount of a derivative represents the amount of underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Group but does not reflect the risk.

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm’s length transaction.

The Group had derivative financial instruments at the period/year end as follows:

	30 June 2008 (unaudited)						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward and swap contracts	205,155	334,442	20,216	9,679	569,492	13,983	(5,278)
Option contracts purchased	26,839	31,920	2,072	—	60,831	8,412	(85)
	231,994	366,362	22,288	9,679	630,323	22,395	(5,363)
Interest rate contracts:							
Swap contracts	5,659	14,942	104,963	53,277	178,841	2,842	(3,320)
Forward contracts	4,115	3,978	23,870	3,292	35,255	114	(111)
Option contracts purchased/written	—	203	2,851	2,443	5,497	1	(1)
	9,774	19,123	131,684	59,012	219,593	2,957	(3,432)
Other derivative contracts	175	—	1,029	—	1,204	2	(46)
	241,943	385,485	155,001	68,691	851,120	25,354	(8,841)

	31 December 2007 (audited)						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward and swap contracts	208,328	258,667	28,724	11,828	507,547	9,631	(4,804)
Option contracts purchased	29,798	83,948	3,892	—	117,638	11,644	(218)
	238,126	342,615	32,616	11,828	625,185	21,275	(5,022)
Interest rate contracts:							
Swap contracts	4,887	12,944	92,734	48,742	159,307	1,353	(1,964)
Forward contracts	4,529	4,483	27,465	5,698	42,175	129	(129)
Option contracts purchased/written	423	596	2,889	3,080	6,988	12	(12)
	9,839	18,023	123,088	57,520	208,470	1,494	(2,105)
	247,965	360,638	155,704	69,348	833,655	22,769	(7,127)

Cash flow hedges

The Group's cash flow hedge consists of forward foreign exchange contracts that are used to protect against exposure to variability of future cash outflow arising from investment in foreign operation which was expected to occur and actually occurred during the six months ended 30 June 2008. Gains and losses on the effective portions of derivatives designated as cash flow hedges are initially recognised directly in equity, in the cash flow hedge reserve, and will be recycled in the profit or loss in the same periods during which the investment acquired affects profit or loss, such as in the period that the investment is disposed of, or when it is expected that all or a portion of the loss recognised directly in equity will not be recovered in future periods.

There is no ineffectiveness recognised in the income statement that arises from cash flow hedges for the current period (six months ended 30 June 2007: Nil).

Fair value hedges

Fair value hedges are used by the Bank to protect it against changes in the fair value of financial assets and financial liabilities due to movements in market interest rates. The financial instruments hedged for interest rate risk mainly include available-for-sale debt securities. The Bank uses interest rate swaps to hedge interest rate risk.

Among the Group's derivative financial instruments, certain were designated as hedging instruments for fair value hedge purpose.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

The effectiveness of the hedge based on changes in fair value of the derivatives and the hedged items attributable to the hedged risk recognised in the income statement during the period is presented as follows:

	Six months ended 30 June	
	2008 (unaudited)	2007 (unaudited)
Gain/(loss) arising from fair value hedge, net:		
— Hedging instruments	175	76
— Hedged items attributable to the hedged risk	(173)	(65)
	2	11

Among the above derivative financial instruments, those designated as hedging instruments in fair value hedge are set out below.

	30 June 2008 (unaudited)						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Interest rate swap contracts	146	1,543	10,310	1,758	13,757	232	(269)
Currency swap contracts	—	—	69	—	69	—	(9)
	146	1,543	10,379	1,758	13,826	232	(278)

	31 December 2007 (audited)						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Interest rate swap contracts	167	1,486	2,686	881	5,220	11	(160)
Currency swap contracts	—	—	74	—	74	—	(4)
	167	1,486	2,760	881	5,294	11	(164)

The replacement costs and credit risk weighted amounts in respect of the above derivatives of the Group as at the balance sheet date were as follows:

Replacement costs

	30 June 2008 (unaudited)	31 December 2007 (audited)
Currency derivatives	22,395	21,275
Interest rate derivatives	2,957	1,494
Other derivatives	2	—
	25,354	22,769

Credit risk weighted amounts

	30 June 2008 (unaudited)	31 December 2007 (audited)
Currency derivatives	5,550	5,117
Interest rate derivatives	3,266	1,729
	8,816	6,846

19. REVERSE REPURCHASE AGREEMENTS

	30 June 2008 (unaudited)	31 December 2007 (audited)
Analysed by counterparty:		
Banks	44,466	65,763
Other financial institutions	14,716	10,117
	59,182	75,880
Analysed by collateral:		
Securities	9,978	6,185
Bills	40,728	58,153
Loans	8,476	11,542
	59,182	75,880

Under certain reverse repurchase agreements, the Group received collateral that is permitted to be sold or repledged in the absence of default by the owners of the collateral. The fair value of the collateral received on such terms as at 31 December 2007 amounted to RMB4,790 million. There was no collateral received on such terms as at 30 June 2008.

As at 30 June 2008, included in reverse repurchase agreements is a balance with original maturity of three months or less in the amount of RMB12,193 million (30 June 2007: RMB4,602 million), which has been included in cash and cash equivalents in the interim condensed consolidated cash flow statement (note 34(b)).

20. LOANS AND ADVANCES TO CUSTOMERS

	30 June 2008 (unaudited)	31 December 2007 (audited)
Corporate loans	3,342,322	3,057,517
Personal loans	814,018	763,607
Discounted bills	199,025	252,105
	4,355,365	4,073,229
Allowance for impairment losses	(122,047)	(115,687)
	4,233,318	3,957,542

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

The composition of corporate loans by legal form of borrower is as follows:

	30 June 2008 (unaudited)	31 December 2007 (audited)
State-wholly-owned enterprises (i)	810,397	740,241
State-controlled enterprises (i)	785,798	719,205
State-invested enterprises (i)	70,372	72,506
Joint-stock enterprises	445,097	416,676
Private enterprises	500,891	458,849
Foreign invested and foreign joint venture enterprises	310,155	293,820
Others (ii)	419,612	356,220
Total corporate loans	3,342,322	3,057,517

(i) Included in identified impaired loans and advances of the Group is an amount of RMB33,921 million (31 December 2007: RMB38,351 million) relating to the advances to state-owned enterprises including state-wholly-owned enterprises, state-controlled enterprises and state-invested enterprises.

(ii) The balance included corporate loans granted to borrowers located outside Mainland China.

Movements of allowance for impairment losses during the period/year are as follows:

	Individually assessed	Collectively assessed	Total
At 1 January 2007	56,991	40,202	97,193
Charge for the year	15,928	17,133	33,061
Accreted interest on impaired loans	(1,430)	—	(1,430)
Write-offs	(7,579)	(592)	(8,171)
Transfer out	(4,966)	—	(4,966)
At 31 December 2007 and 1 January 2008 (audited)	58,944	56,743	115,687
Charge for the period	1,636	12,012	13,648
Accreted interest on impaired loans	(694)	—	(694)
Write-offs	(5,676)	(189)	(5,865)
Transfer out	(729)	—	(729)
At 30 June 2008 (unaudited)	53,481	68,566	122,047

Movements of allowance for impairment losses during the period/year analysed into those attributable to corporate loans and discounted bills and personal loans are as follows:

	Corporate loans and discounted bills	Personal loans	Total
At 1 January 2007	86,346	10,847	97,193
Charge for the year	30,363	2,698	33,061
Accreted interest on impaired loans	(1,430)	—	(1,430)
Write-offs	(7,579)	(592)	(8,171)
Transfer out	(4,966)	—	(4,966)
At 31 December 2007 and 1 January 2008 (audited)	102,734	12,953	115,687
Charge for the period	11,870	1,778	13,648
Accreted interest on impaired loans	(694)	—	(694)
Write-offs	(5,676)	(189)	(5,865)
Transfer out	(729)	—	(729)
At 30 June 2008 (unaudited)	107,505	14,542	122,047

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

	30 June 2008 (unaudited)	31 December 2007 (audited)
Loans and advances for which allowance for impairment losses is:		
Individually assessed	95,956	103,055
Collectively assessed	4,259,409	3,970,174
	4,355,365	4,073,229
Allowance for impairment losses:		
Individually assessed	53,481	58,944
Collectively assessed	68,566	56,743
	122,047	115,687
Net loans and advances for which allowance for impairment losses is:		
Individually assessed	42,475	44,111
Collectively assessed	4,190,843	3,913,431
	4,233,318	3,957,542
Identified impaired loans and advances	105,136	111,774
Percentage of impaired loans and advances	2.41%	2.74%

The composition of individually assessed allowance for impairment losses of corporate loans by legal form of borrower is as follows:

	30 June 2008 (unaudited)	31 December 2007 (audited)
State-wholly-owned enterprises	11,343	13,091
State-controlled enterprises	8,224	9,010
State-invested enterprises	3,349	3,663
Joint-stock enterprises	8,800	9,434
Private enterprises	10,356	10,830
Foreign invested and foreign joint venture enterprises	5,832	6,642
Others	5,577	6,274
Total individually assessed allowance for impairment losses	53,481	58,944

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

Securitisation business

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to special purpose entities (“SPEs”) which issue asset-backed securities to investors. The Group consolidates those SPEs which the Group obtains control in accordance with the requirements of relevant accounting standards, and the transferred financial assets are derecognised if certain conditions are met. When the Group sells or otherwise transfers financial assets in such a way that some but not substantially all of the risks and rewards of ownership are transferred but control is retained, partial derecognition occurs. Those financial assets are recognised on the balance sheet to the extent of the Group’s continuing involvement. The extent of the Group’s continuing involvement is the extent to which the Group exposes to changes in the value of the transferred assets.

The Group may retain interests in the form of subordinated tranches and that give rise to the Group’s continuing involvement in the transferred assets. Loans with original carrying amount of RMB12,032 million (31 December 2007: RMB4,021 million) have been securitised by the Group under arrangements in which the Group retains a continuing involvement in such assets. As at 30 June 2008, the amount of assets that the Group continues to recognise is RMB440 million (31 December 2007: RMB116 million) which are classified as available-for-sale securities.

21. FINANCIAL INVESTMENTS

	Notes	30 June 2008 (unaudited)	31 December 2007 (audited)
Receivables	(a)	1,212,167	1,211,767
Held-to-maturity debt securities	(b)	1,348,421	1,330,085
Available-for-sale investments	(c)	589,426	531,155
		3,150,014	3,073,007

(a) Receivables

The receivables are unlisted and stated at amortised cost and comprise the following:

	Notes	30 June 2008 (unaudited)	31 December 2007 (audited)
Huarong bonds	(i)	312,996	312,996
Special government bond	(ii)	85,000	85,000
MOF receivable	(iii)	193,981	193,981
Special PBOC bills	(iv)	434,790	434,790
PBOC bills and bonds of financial institutions	(v)	185,400	185,000
		1,212,167	1,211,767

Notes:

- (i) Huarong bonds are a series of long term bonds issued by China Huarong Asset Management Corporation (“Huarong”) in 2000 and 2001, with an aggregate amount of RMB312,996 million. The proceeds from the issuance of the bond were used to purchase impaired assets of the Group. The bonds are non-transferable, with a tenure of 10 years and bear interest at a fixed rate of 2.25% per annum. The Ministry of Finance of the PRC (the “MOF”) will provide support for the repayment of the principal of the Huarong bonds if necessary. In addition, with effect from 1 July 2005, should Huarong be unable to make full payment of the bond interest, the MOF will provide funding in support of the payment.
- (ii) The special government bond represents a non-negotiable bond with a nominal value of RMB85,000 million issued by the MOF to the Bank in 1998. The bond will mature in 2028 and bears interest at a fixed rate of 2.25% per annum.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

- (iii) MOF receivable represents the receivable arising from the disposal of certain impaired assets to Huarong in 2005. The amount is repayable by 2010 and bears interest at a fixed rate of 3% per annum.
- (iv) Special PBOC bills consist of:
- a non-transferable bill with a nominal value of RMB430,465 million issued by the PBOC in June 2005, which will mature in June 2010 and bears a fixed interest rate of 1.89% per annum. The PBOC has the right to early redeem the bill prior to the maturity date; and
 - a non-transferable bill with a nominal value of RMB4,325 million issued by the PBOC in June 2006, which will mature in June 2011 and bears a fixed interest rate of 1.89% per annum. The PBOC has the right to early redeem the bill prior to the maturity date.
- (v) PBOC bills and bonds of financial institutions. The balance represents non-transferable debt securities with fixed or determinable payments.

(b) Held-to-maturity debt securities

Held-to-maturity debt securities are stated at amortised cost and comprise the following:

	30 June 2008 (unaudited)	31 December 2007 (audited)
Debt securities	1,349,027	1,330,234
Allowance for impairment losses	(606)	(149)
	1,348,421	1,330,085
Analysed into:		
Listed in Hong Kong	614	655
Listed outside Hong Kong	211,953	331,109
Unlisted	1,135,854	998,321
	1,348,421	1,330,085
Market value of listed debt securities	205,418	323,928

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

(c) Available-for-sale investments

Available-for-sale investments comprise the following:

	30 June 2008 (unaudited)	31 December 2007 (audited)
Debt securities, at fair value (i)	584,678	524,723
Equity investments:		
At fair value	2,298	3,412
At cost: (ii)		
Debt for equity swaps (iii)	2,549	3,130
Others	357	338
	5,204	6,880
Allowance for impairment losses of equity investments	(456)	(448)
	4,748	6,432
	589,426	531,155
Debt securities analysed into:		
Listed in Hong Kong	2,255	1,617
Listed outside Hong Kong	32,338	44,454
Unlisted	550,085	478,652
	584,678	524,723
Equity investments analysed into:		
Listed in Hong Kong	1,689	2,235
Listed outside Hong Kong	609	1,177
Unlisted	2,450	3,020
	4,748	6,432
Market value of listed securities:		
Debt securities	34,593	46,071
Equity investments	2,298	3,412
	36,891	49,483

- (i) Available-for-sale debt securities are stated at fair value, with any recognised impairment loss being deducted from the carrying amount directly. The impairment loss of available-for-sale debt securities for the period is RMB4,028 million (six months ended 30 June 2007: Nil).
- (ii) Certain available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any impairment losses. There is no active market for these investments and it is the Bank's intention to dispose of them as opportunities arise. During the six months ended 30 June 2008, the Bank has derecognized part of these equity investments with carrying value of RMB581 million (30 June 2007: RMB486 million) at the time of derecognition. There was no gain or loss recognised for such derecognition during the period (six months ended 30 June 2007: gain of RMB7 million).
- (iii) As with other state-owned banks, the Bank obtained equity interests in certain enterprises in lieu of repayments of loans through debt for equity swap arrangements set by the central government of the PRC (the "Government") in 1999. These equity interests are held through an asset management company, but the Bank in fact retains the risks and rewards of ownership and rights to dispose of these equity interests. By their nature, these equity interests are treated as equity investments of the Group.

(d) Movements of allowance for impairment losses of held-to-maturity debt securities and available-for-sale equity investments during the period/year are as follows:

	Held-to-maturity debt securities	Available-for-sale equity investments	Total
At 1 January 2007	39	467	506
Charge for the year	110	54	164
Disposals	—	(73)	(73)
At 31 December 2007 and 1 January 2008 (audited)	149	448	597
Charge for the period	512	8	520
Transfer out/write-off	(55)	—	(55)
At 30 June 2008 (unaudited)	606	456	1,062

22. INVESTMENTS IN ASSOCIATES

The following table illustrates the summarised financial information of the Group's associates from the date of acquisition extracted from their financial statements:

	30 June 2008	31 December 2007
Assets	1,174,448	634
Liabilities	(1,089,938)	(214)
Net assets	84,510	420

	Six months ended 30 June	
	2008	2007
Revenue	22,256	109
Profit for the period	5,404	35

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

Particulars of the Group's associates at the balance sheet date are as follows:

Name	Percentage of equity interest attributable to the Group		Place of incorporation/ registration	Principal activities
	30 June 2008 %	31 December 2007 %		
Listed investment directly held: Standard Bank Group Limited ("Standard Bank") (i)	20.0	—	Republic of South Africa	Commercial banking
Unlisted investment indirectly held: China Ping An Insurance (Hong Kong) Company Limited (ii)	17.9	15.8	Hong Kong	General insurance
IEC Investments Limited (iii)	28.7	25.2	Hong Kong	Investment company

- (i) On 3 March 2008, the Bank completed its acquisition of a 20% equity interest in Standard Bank, with a consideration of ZAR36,330 million (equivalent to approximately RMB33,340 million).
- (ii) The shareholding of a 25% equity interest in this associate is held through a non-wholly-owned subsidiary, ICBC (Asia). The percentage of ownership interest disclosed represents the effective percentage held by the Group.
- (iii) The shareholding of a 40% equity interest in this associate is held through a non-wholly-owned subsidiary, ICBC (Asia). The percentage of ownership interest disclosed represents the effective percentage held by the Group.

	30 June 2008 (unaudited)	31 December 2007 (audited)
Market value of listed shares	20,169	—

23. PROPERTY AND EQUIPMENT

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment and computers	Motor vehicles	Total
Cost or valuation:						
1 January 2007	73,674	2,908	1,472	17,626	1,884	97,564
Additions	1,426	2,390	547	4,314	128	8,805
Acquisition of a subsidiary	3	—	—	2	2	7
Transfers	1,279	(1,600)	—	310	21	10
Disposals	(1,737)	(1,031)	(225)	(316)	(275)	(3,584)
At 31 December 2007 and 1 January 2008 (audited)	74,645	2,667	1,794	21,936	1,760	102,802
Additions	156	1,107	112	675	35	2,085
Acquisition of a subsidiary (note 34(a))	183	—	—	34	1	218
Transfers	269	(464)	—	199	4	8
Disposals	(163)	(69)	(23)	(166)	(145)	(566)
At 30 June 2008 (unaudited)	75,090	3,241	1,883	22,678	1,655	104,547
Accumulated depreciation and impairment:						
At 1 January 2007	5,404	345	606	7,717	1,089	15,161
Depreciation charge for the year	3,341	—	273	4,320	384	8,318
Impairment losses	470	51	—	10	5	536
Disposals	(506)	(247)	(205)	(290)	(231)	(1,479)
At 31 December 2007 and 1 January 2008 (audited)	8,709	149	674	11,757	1,247	22,536
Depreciation charge for the period	1,741	—	174	2,015	115	4,045
Disposals	(69)	—	(13)	(148)	(144)	(374)
At 30 June 2008 (unaudited)	10,381	149	835	13,624	1,218	26,207
Net carrying amount:						
At 31 December 2007 (audited)	65,936	2,518	1,120	10,179	513	80,266
At 30 June 2008 (unaudited)	64,709	3,092	1,048	9,054	437	78,340
Analysis of cost or valuation:						
At 31 December 2007 (audited)						
At cost	7,491	2,667	1,794	10,842	368	23,162
At 30 June 2005 valuation	67,154	—	—	11,094	1,392	79,640
	74,645	2,667	1,794	21,936	1,760	102,802
At 30 June 2008 (unaudited)						
At cost	8,099	3,241	1,883	11,750	408	25,381
At 30 June 2005 valuation	66,991	—	—	10,928	1,247	79,166
	75,090	3,241	1,883	22,678	1,655	104,547

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

24. DEFERRED INCOME TAX

Deferred income tax assets and liabilities as at the balance sheet date are as follows:

	30 June 2008 (unaudited)	31 December 2007 (audited)
Deferred tax assets	7,118	5,833
Deferred tax liabilities	(158)	(337)
	6,960	5,496

The movements in the major components of deferred tax assets and liabilities are as follows:

	At 1 January 2008	Credited/ (charged) to income statement	Credited to equity	At 30 June 2008 (unaudited)
Provision for impairment losses	4,684	1,043	—	5,727
Revaluation of available-for-sale investments	380	—	982	1,362
Changes in fair value of financial instruments at fair value through profit or loss	(3,179)	(580)	—	(3,759)
Others (note)	3,611	19	—	3,630
Total	5,496	482	982	6,960

	At 1 January 2007	Credited/ (charged) to income statement	Credited to equity	At 31 December 2007 (audited)
Provision for impairment losses	1,481	3,203	—	4,684
Revaluation of available-for-sale investments	(1,007)	—	1,387	380
Changes in fair value of financial instruments at fair value through profit or loss	(1,776)	(1,403)	—	(3,179)
Others (note)	(147)	3,758	—	3,611
Total	(1,449)	5,558	1,387	5,496

Note: Includes deferred tax assets of RMB3,240 million (31 December 2007: RMB3,125 million) in respect of temporary differences arising from early retirement benefits.

25. OTHER ASSETS

	30 June 2008 (unaudited)	31 December 2007 (audited)
Interest receivable	54,601	43,265
Reposessed assets	3,312	3,400
Land use rights	23,146	23,318
Settlement accounts	13,111	4,598
Goodwill	4,833	1,420
Bullion	2,924	1,134
Others	18,237	14,683
	120,164	91,818

26. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	30 June 2008 (unaudited)	31 December 2007 (audited)
Structured deposits	(i)	3,809	10,558
Notes payable	(ii)	2,617	2,863
Certificates of deposit	(iii)	2,696	2,169
		9,122	15,590

- (i) The fair value of structured deposits at 30 June 2008 was RMB203 million below the contractual amount at maturity (31 December 2007: RMB187 million below). The amounts of changes in the fair value of the financial liabilities that are attributable to changes in credit risk are considered not significant during the period/year presented and cumulatively as at 30 June 2008 and 31 December 2007.
- (ii) The notes were issued in September 2004 by ICBCA (C.I.) Limited, an indirectly-held subsidiary of the Bank, at a coupon rate of 4.125% per annum and maturing on 16 September 2009. The amount of fair value in excess of the amount that the Group would be contractually required to pay upon maturity to the holders of these notes amounted to RMB19 million as at 30 June 2008 (31 December 2007: RMB1 million above). The amounts of changes in the fair value of the financial liabilities that are attributable to changes in credit risk are considered not significant during the period/year presented and cumulatively as at 30 June 2008 and 31 December 2007.
- (iii) Certificates of deposit are all issued by ICBC (Asia) to financial institutions and retail customers at fixed or floating rates. The amount of fair value in excess of the amount that the Group would be contractually required to pay upon maturity to the holders of these certificates of deposit amounted to RMB6 million as at 30 June 2008 (31 December 2007: RMB11 million above). The amounts of changes in the fair value of the financial liabilities that are attributable to changes in credit risk are considered not significant during the period/year presented and cumulatively as at 30 June 2008 and 31 December 2007.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

The amounts of changes in the fair value of the financial liabilities that are attributable to changes in credit risk is determined as the amounts of changes in the fair value of the financial liabilities that are not attributable to changes in market conditions that give rise to market risk. The credit spread has not changed and the changes in fair value of the financial liabilities are attributable to the changes in other market factor components.

Certain structured deposits, notes payable and certificates of deposit have been matched with interest rate swaps as part of a documented risk management strategy to mitigate market risk, such as interest rate risk. An accounting mismatch would arise if the structured deposits, notes payable and certificates of deposit were accounted for at amortised cost, because the related derivatives are measured at fair value with movements in the fair value taken through the income statement. By designating the structured deposits, notes payable and certificates of deposit at fair value through profit or loss, the movement in their fair values will be recorded in the income statement.

27. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2008 (unaudited)	31 December 2007 (audited)
Money market takings	64,884	77,565
Deposits	802,408	727,609
	867,292	805,174
Analysed by legal form of counterparty:		
Policy banks	670	367
State-owned banks	24,949	14,250
Joint-stock banks	26,646	33,961
Other financial institutions	815,027	756,596
	867,292	805,174

28. REPURCHASE AGREEMENTS

	30 June 2008 (unaudited)	31 December 2007 (audited)
Analysed by counterparty:		
Banks	118,408	105,199
Other financial institutions	68,228	88,309
	186,636	193,508
Analysed by collateral:		
Securities	184,064	190,174
Loans	2,572	3,334
	186,636	193,508

29. DUE TO CUSTOMERS

	30 June 2008 (unaudited)	31 December 2007 (audited)
Demand deposits:		
Corporate customers	2,415,828	2,378,392
Personal customers	1,255,978	1,182,787
Others	105,989	115,030
Time deposits:		
Corporate customers	1,387,854	1,128,417
Personal customers	2,373,099	2,093,787
	7,538,748	6,898,413

30. SUBORDINATED BONDS

As approved by the PBOC and the CBRC, the Bank issued callable subordinated bonds of RMB35,000 million through open market bidding in 2005. The Group has not had any defaults of principal, interest or other breaches with respect to the subordinated bonds during the period (six months ended 30 June 2007: Nil). The relevant information on these subordinated bonds is set out below:

Name	Issue date	Issue price	Coupon rate	Value date	Maturity date	Circulation date	Issue amount	Notes
05 ICBC 01 Bond	19 August 2005	RMB100	3.11%	29 August 2005	29 August 2015	30 September 2005	RMB13,000 million	(i)
05 ICBC 02 Bond	19 August 2005	RMB100	3.77%	6 September 2005	6 September 2020	11 October 2005	RMB13,000 million	(ii)
05 ICBC 03 Bond	19 August 2005	RMB100	Base rate +1.05%	14 September 2005	14 September 2015	11 October 2005	RMB9,000 million	(iii)

Notes:

- (i) The Bank has the option to redeem all or part of the bonds at face value on 29 August 2010. If the Bank does not exercise this option, the annual coupon rate will increase by 3% thereafter.
- (ii) The Bank has the option to redeem all or part of the bonds at face value on 6 September 2015. If the Bank does not exercise this option, the annual coupon rate will increase by 3% thereafter.
- (iii) The base rate is determined based on the weighted average of the PRC inter-bank money market 7-day repo rates. The Bank has the option to redeem all or part of the bonds at face value on 14 September 2010. If the Bank does not exercise this option, the interest margin of the bonds will increase by 1% thereafter.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

31. OTHER LIABILITIES

	30 June 2008 (unaudited)	31 December 2007 (audited)
Interest payable	78,768	62,744
Settlement accounts	45,473	24,618
Salaries and welfare payables	23,487	18,552
Sundry tax payables	6,265	7,199
Bank drafts	3,307	4,725
Payables for bonds purchased	1,535	12,865
Others	20,689	19,954
	179,524	150,657

32. SHARE CAPITAL

	30 June 2008		31 December 2007	
	Number of shares (millions) (unaudited)	Nominal value (unaudited)	Number of shares (millions) (audited)	Nominal value (audited)
Registered, issued and fully paid:				
H-shares of RMB1 each	83,057	83,057	83,057	83,057
A-shares of RMB1 each	250,962	250,962	250,962	250,962
	334,019	334,019	334,019	334,019

Except for dividends for H-shares which are payable in HK\$, all of the H-shares and A-shares rank pari passu with each other in respect of dividends.

Share appreciation rights plan

The Bank's share appreciation rights plan was approved in 2006, which allowed the share appreciation rights to be granted to eligible participants including directors, supervisors, senior management and other key personnel designated by the board of directors. The share appreciation rights will be granted and exercised based on the price of the Bank's H-shares and will be valid for ten years. As at the date of this report, no share appreciation rights have been granted.

33. RESERVES

(a) Capital reserve

Pursuant to the restructuring in 2005, the paid-up capital, reserves and accumulated losses as determined under the generally accepted accounting principles in the PRC, were converted into the Bank's issued share capital upon its incorporation. In the preparation of the Group's financial statements, the paid-up capital and all the then existing reserves and accumulated losses as determined under IFRSs were accordingly eliminated, with the resulting difference dealt with in the capital reserve. Subsequently, the share premium of new shares issued, after deducting related share issue expenses, was also accounted for under the capital reserve.

(b) Surplus reserves

(i) *Statutory surplus reserve*

The Bank is required to appropriate 10% of its profit after incorporating as a joint-stock limited company, determined under generally accepted accounting principles in the PRC, to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses of the Bank, if any, and may also be converted into capital of the Bank, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before capitalisation.

(ii) *Discretionary surplus reserve*

After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its profit to the discretionary surplus reserve upon approval by the shareholders in general meetings. Subject to the approval by the shareholders, the discretionary surplus reserve may be used to offset accumulated losses of the Bank, if any, and may be converted into capital.

The Bank's overseas entities appropriate their profits to the surplus reserves in accordance with relevant regulations promulgated by the local regulatory bodies.

(c) Other reserves

The Bank is required to maintain a general reserve within equity, through the appropriation of profit, which should not be less than 1% of the year end balance of its risk assets. As allowed by the MOF, the reserve is to be appropriated over a period of not more than five years, beginning in 2005.

The Bank's subsidiaries appropriate their profit to the general reserve according to the applicable regulations.

The investment revaluation reserve records the fair value changes of available-for-sale investments.

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the subsidiaries and branches incorporated outside Mainland China.

The cash flow hedge reserve comprises the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

(d) Distributable profit

The Bank's distributable profit is based on the retained profits of the Bank as determined under generally accepted accounting principles in the PRC and IFRSs, whichever is lower. The amount that the Bank's subsidiaries can legally distribute by way of a dividend is determined by reference to their profits as reflected in their financial statements prepared in accordance with the accounting regulations and principles promulgated by the local regulatory bodies of the respective countries/regions. These profits may differ from those dealt with in these financial statements, which are prepared in accordance with IFRSs.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Acquisition of a subsidiary**

The Bank acquired a 79.9% equity interest in Seng Heng Bank. Seng Heng Bank is a commercial bank domiciled in Macau. The acquisition was completed on 28 January 2008 at a consideration of approximately MOP4,874 million (equivalent to approximately RMB4,352 million) in aggregate.

Had the acquisition taken place at the beginning of the period, total operating income of the Group would have been RMB155,003 million, and the profit for the period of the Group would have been RMB64,904 million.

The identifiable assets and liabilities of Seng Heng Bank have been accounted for provisionally based on the financial statements of Seng Heng Bank as at the acquisition date.

	Note	At date of acquisition
Cash and balances with central banks		683
Due from banks and other financial institutions		6,315
Financial assets held for trading		7,213
Loans and advances to customers		8,516
Financial investments		4,352
Property and equipment	23	218
Other assets		265
Due to banks and other financial institutions		(72)
Due to customers		(24,778)
Income tax payable		(50)
Deferred tax liabilities		(17)
Other liabilities		(811)
Minority interests		(368)
Net assets acquired		1,466
Goodwill arising on acquisition		2,886
Total cash consideration		4,352

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

Cash flow on acquisition of a subsidiary:		
Cash acquired		6,613
Cash consideration		(4,352)
Net cash inflow		2,261

The goodwill is attributable to the expected synergies arising from the acquisition. From the date of acquisition, Seng Heng Bank has contributed RMB150 million to the net profit of the Group for the period ended 30 June 2008.

(b) Analysis of balances of cash and cash equivalents

	Notes	30 June 2008 (unaudited)	30 June 2007 (unaudited)
Cash on hand	14	42,904	37,455
Balances with central banks other than restricted deposits	14	114,294	103,613
Nostro accounts with banks and other financial institutions with original maturity of three months or less	15	36,514	19,665
Placements with banks and other financial institutions with original maturity of three months or less	15	100,632	155,704
Reverse repurchase agreements with original maturity of three months or less	19	12,193	4,602
		306,537	321,039

35. COMMITMENTS AND CONTINGENT LIABILITIES**(a) Capital commitments**

At the balance sheet date, the Group had capital commitments as follows:

	30 June 2008 (unaudited)	31 December 2007 (audited)
Authorised, but not contracted for	1,265	2,212
Contracted, but not provided for	1,174	45,943
	2,439	48,155

As at 30 June 2008, the Group entered into agreements in relation to capital injection in a subsidiary at a total consideration of approximately RMB268 million. As at 31 December 2007, the Group entered into agreements in relation to the acquisition of equity interests in subsidiaries and an associate at a total consideration of approximately RMB45,035 million, which have been completed during the six months ended 30 June 2008.

(b) Operating lease commitments

At the balance sheet date, the Group leased certain of its premises under operating lease arrangements. The total future minimum lease payments in respect of non-cancellable operating leases were as follows:

	30 June 2008 (unaudited)	31 December 2007 (audited)
Within one year	1,924	1,635
Between the second and fifth years, inclusive	4,218	3,741
After five years	1,581	1,503
	7,723	6,879

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

(c) Credit commitments

At any given time, the Group has outstanding commitments to extend credit. These commitments are in the form of approved loans and credit card limits.

The Group provides letters of credit and financial guarantees to guarantee the performance of customers to third parties.

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of credit commitments by category are set out below. The amounts disclosed in respect of loan commitments are under the assumption that the amounts will be fully advanced. The amounts for letters of credit and guarantees represent the maximum potential losses that would be recognised at the balance sheet date if the counterparties had failed to perform as contracted.

	30 June 2008 (unaudited)	31 December 2007 (audited)
Letters of credit issued	136,175	111,254
Guarantees issued	201,899	191,748
Acceptances	191,019	155,073
Irrevocable loan commitments with original maturity of:		
Not more than one year	21,411	13,281
More than one year	74,404	61,101
Unconditionally cancelable loan commitments	148,936	151,094
Undrawn credit card limit	134,120	106,136
	907,964	789,687

	30 June 2008 (unaudited)	31 December 2007 (audited)
Credit risk weighted amounts of credit commitments	368,111	384,545

The credit risk weighted amounts refer to the amounts computed in accordance with the rules promulgated by the CBRC and depend on the status of the counterparties and the maturity characteristics. The risk weights ranged from 0% to 100% for credit commitments.

(d) Legal proceedings

There were a number of legal proceedings outstanding against the Bank and/or its subsidiaries as at the balance sheet date.

	30 June 2008 (unaudited)	31 December 2007 (audited)
Claimed amounts	2,799	2,999

In the opinion of the management, the Group has made adequate allowance for any probable losses based on the current facts and circumstances.

(e) Redemption commitments of government bonds

As an underwriting agent of the Government, the Bank underwrites certain PRC government bonds and sells the bonds to the general public, in which the Bank is obliged to redeem these bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds plus any interest accrued up to the redemption date. As at 30 June 2008, the Bank had underwritten and sold bonds with an accumulated amount of RMB136,678 million (31 December 2007: RMB156,718 million) to the general public, and that have not yet matured nor been redeemed. The directors expect that the amount of redemption of these government bonds through the Bank prior to maturity will not be material.

The MOF will not provide funding for the early redemption of these government bonds on a back-to-back basis but is obliged to repay the principal and the respective interest upon maturity.

(f) Underwriting obligations

At the balance sheet date, the unexpired underwriting obligations in respect of banks and other financial institutions are as follows:

	30 June 2008 (unaudited)	31 December 2007 (audited)
Underwriting obligations	—	7,500

36. DESIGNATED DEPOSITS AND LOANS

	30 June 2008 (unaudited)	31 December 2007 (audited)
Designated deposits	187,497	153,745
Designated loans	186,499	153,422

The designated deposits represent funds that depositors have instructed the Group to use to make loans to third parties as designated by them. The credit risk remains with the depositors.

The difference between designated deposits and designated loans represents the undesignated amount of deposits, which is included in amounts due to customers.

37. ASSETS PLEDGED AS SECURITY

As at 30 June 2008, the assets of the Group including securities, bills and loans which have been pledged for the repurchase agreements amounted to approximately RMB186,636 million (31 December 2007: RMB193,508 million).

38. FIDUCIARY ACTIVITIES

The Group provides custody and asset management services to third parties. Revenue from such activities is included in "Fee and commission income" set out in note 4 above. Those assets held in a fiduciary capacity are not included in the Group's consolidated balance sheet.

39. RELATED PARTY DISCLOSURES

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the period:

(a) The MOF

As at 30 June 2008, the MOF directly owned approximately 35.3% of the issued share capital of the Bank. The Group enters into banking transactions with the MOF in its normal course of business, including the subscription and redemption of government bonds. Details of the material transactions are as follows:

	30 June 2008 (unaudited)	31 December 2007 (audited)
Balances at end of the period/year:		
The PRC government bonds and the special government bond	514,646	510,088
MOF receivable (note 21(a)(iii))	193,981	193,981
	Six months ended 30 June	
	2008 (unaudited)	2007 (unaudited)
Transactions during the period:		
Subscription of PRC government bonds	42,590	58,370
Redemption of PRC government bonds	10,558	19,629
Interest income on bonds	8,763	6,669
Repayment of MOF receivable (note 21(a)(iii))	—	11,126
Interest income on MOF receivable	2,910	3,308
	%	%
Interest rate range during the period is as follows:		
MOF receivable	3	3
Bond investments	1.93 to 7.3	1.6 to 10.2

The MOF is a ministry under the State Council, primarily responsible for, among others, state fiscal revenues and expenditures, and taxation policies. Enterprises or legal entities under the control or supervision of the MOF are mainly financial institutions, government departments or agencies. The management is of the view that transactions with enterprises or legal entities under the control or supervision of the MOF are conducted in the ordinary course of business. With due regard to the substance of the relationship, the management is of the opinion that none of these transactions are considered related party transactions that require disclosure.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

(b) Huijin

Huijin was incorporated as a wholly-state-owned investment company with the approval of the State Council. It was established to hold certain equity investments on behalf of the State Council, and to represent the Government in exercising its investors' rights and obligations in certain banks and financial institutions. As at 30 June 2008, Huijin directly owned approximately 35.3% of the issued share capital of the Bank.

In 2005, the Bank entered into an agreement with Huijin, pursuant to which the Bank purchased from Huijin an option to sell to Huijin a maximum of US\$12,000 million in exchange for RMB at a pre-determined exchange rate of US\$1 to RMB8.2765. The option is exercisable in 2008 in 12 equal monthly instalments. Total option premium of RMB2,979 million is payable to Huijin in 12 equal monthly instalments in 2008. The purpose of the option is to economically hedge against the Bank's currency risk arising from part of the US\$15,000 million capital injection made by Huijin in 2005.

The Bank values the option using the Garman Kohlhagen Option model. The parameters used for the valuation include relevant market interest rates of RMB and United States dollars ("US\$"), the spot exchange rates of RMB against US\$ sourced from the PBOC, and the average historical foreign exchange volatility.

The Bank has exercised part of the Huijin option with a notional amount of US\$6,000 million for RMB at the pre-determined exchange rate during the six months ended 30 June 2008. The net impact on the income statement resulted from the change in the fair value of the option during the period amounted to RMB4,033 million (six months ended 30 June 2007: RMB946 million) and is included in "Loss from foreign exchange and foreign exchange products, net". The fair value of the unexercised option as at 30 June 2008 amounted to RMB8,328 million (31 December 2007: RMB11,434 million) and is included in "Derivative financial assets". The premium payable in respect of the remaining option is stated at its discounted value of RMB1,480 million (31 December 2007: RMB2,938 million) and is included in "Other liabilities".

In addition to the above, the Group also entered into banking transactions with Huijin in the ordinary course of business under normal commercial terms and at market rates. Details of the material transactions are as follows:

	30 June 2008 (unaudited)	31 December 2007 (audited)
Balances at end of the period/year:		
Deposits	56,121	20,776
Interest payable	366	—
	Six months ended 30 June	
	2008 (unaudited)	2007 (unaudited)
Transactions during the period:		
Interest expenses on deposits	557	375
	%	%
Interest rate range during the period is as follows:		
Deposits	0.7 to 4.3	0.7 to 5.2

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008
(In RMB millions, unless otherwise stated)

Huijin has equity interests in certain other banks and financial institutions under the direction of the Government. The Group enters into transactions with these banks and financial institutions in the ordinary course of its business on normal commercial terms. The management considers that these banks and financial institutions are competitors of the Group. Significant transactions during the period conducted with these banks and financial institutions, and the corresponding balances as at 30 June 2008 are as follows:

	30 June 2008 (unaudited)	31 December 2007 (audited)
Balances at end of the period/year:		
Debt securities purchased	8,735	13,643
Due from these banks and financial institutions	12,943	12,093
Due to these banks and financial institutions	29,591	46,786

	Six months ended 30 June	
	2008 (unaudited)	2007 (unaudited)
Transactions during the period:		
Interest income from debt securities purchased	259	244
Interest income from amounts due from these banks and financial institutions	362	551
Interest expense on amounts due to these banks and financial institutions	393	359

	Six months ended 30 June	
	2008 (unaudited) %	2007 (unaudited) %
Interest rate ranges during the period are as follows:		
Debt securities purchased	2.0 to 8.3	2.5 to 8.3
Due from these banks and financial institutions	0 to 7.3	0 to 13.0
Due to these banks and financial institutions	0 to 6.5	0 to 5.5

The interest rates disclosed above vary across product groups and transactions depending on the maturity, credit risk of counterparty and currency. In particular, given local market conditions, the spread of certain significant or long dated transactions can vary across the market.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

(c) Shareholders with significant influence

(i) Goldman Sachs Group Inc.

Goldman Sachs Group Inc. ("Goldman Sachs") is considered to have significant influence on the Bank through its nominated representative serving on the Bank's board of directors. Significant transactions during the period conducted with Goldman Sachs, and the corresponding balances as at 30 June 2008 are as follows:

	30 June 2008 (unaudited)	31 December 2007 (audited)
Balances at end of the period/year:		
Debt securities purchased	3,784	2,276
Six months ended 30 June		
	2008 (unaudited)	2007 (unaudited)
Transactions during the period:		
Interest income from debt securities purchased	76	182
Interest expense on deposits	—	41
%		
Interest rate ranges during the period are as follows:		
Debt securities purchased	2.3 to 7.6	3.6 to 6.0
Deposits	—	5.1 to 5.3

The major transactions between the Group and Goldman Sachs comprised debt securities purchased and deposits, as well as the interest income and expense arising from those transactions. In the opinion of the management, the transactions between the Group and Goldman Sachs are conducted under normal commercial terms and conditions.

(ii) National Council for Social Security Fund

The National Council for Social Security Fund (the "SSF") had a substantial equity interest in the Bank during the period. Significant transactions during the period conducted with the SSF are as follows:

	30 June 2008 (unaudited)	31 December 2007 (audited)
Balances at end of the period/year:		
Deposits	—	9,500
	Six months ended 30 June	
	2008 (unaudited)	2007 (unaudited)
Transactions during the period:		
Interest expense on deposits	60	269
	%	%
Interest rate range during the period is as follows:		
Deposits	0.7 to 5.5	0.7 to 4.7

The major transactions between the Group and the SSF comprised deposits and the corresponding interest expense. In the opinion of the management, the transactions between the Group and the SSF were conducted under normal commercial terms and conditions.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

(d) Associates

Balances with associates are set out below:

	30 June 2008 (unaudited)	31 December 2007 (audited)
Balances at end of the period/year:		
Due from an associate	124	—
Loan to an associate	—	157
Due to associates	23	47

The major transactions between the Group and its associates mainly comprised deposits and placements from banks and other financial institutions and the corresponding income and expenses. In the opinion of the management, the transactions between the Group and its associates were conducted and priced under normal commercial terms and conditions. As the income and expenses are not material, they have not been separately disclosed.

(e) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

The aggregate compensation for the period is as follows:

	Six months ended 30 June	
	2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
Short-term employment benefits	7,185	7,231
Post-employment benefits	302	328
	7,487	7,559

Companies or corporations in which the key management of the Group, or their close relatives, are shareholders or key management personnel who are able to exercise control or significant influence, are also considered as related parties of the Group.

In the opinion of the management, the transactions between the Group and the aforementioned parties were conducted on terms and conditions similar to those offered to other unrelated customers, and these transactions and related balances are not significant to the Group.

(f) Transactions with other state-owned entities in the PRC

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

Management considers that transactions with other state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly controlled or owned by the Government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities. Having due regard to the substance of the relationship, the management is of the opinion that none of these transactions are considered related party transactions that require disclosure.

40. SEGMENT INFORMATION

Segment information is presented in respect of the Group’s business and geographical segments. The Group managed its business both by business segment, which mainly includes corporate banking, personal banking and treasury operations, and geographical segment. Accordingly, both business segment information and geographical segment information are presented as the Group’s primary segment reporting formats.

The measurement of segment assets and liabilities and segment revenues and results is based on the Group’s accounting policies.

Transactions between segments mainly represent the provision of funding to and from individual segments. These transactions are conducted on terms determined with reference to the average cost of funding and have been reflected in the performance of each segment. Net interest income and expenses arising on internal charges are referred to as “internal net interest income/expenses”. Interest income and expenses relating to third parties are referred to as “external net interest income/expenses”.

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(a) Business segments

The Group comprises the following main business segments:

Corporate banking

The corporate banking segment covers the provision of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit-taking activities, corporate wealth management services and various types of corporate intermediary services.

Personal banking

The personal banking segment covers the provision of financial products and services to individual customers. The products and services include personal loans, deposit-taking activities, card business, personal wealth management services and various types of personal intermediary services.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

Treasury operations

The treasury operations segment covers the Group's treasury operations. The treasury conducts money market or repurchase transactions, debt instruments investments, and holding of derivative positions, for its own accounts or on behalf of customers.

Others

This segment represents equity investments and head office assets, liabilities, income and expenses that are not directly attributable to a segment or cannot be allocated on a reasonable basis.

	Corporate banking	Personal banking	Treasury operations	Others	Total
Six months ended 30 June 2008 (unaudited)					
External net interest income/(expense)	89,690	(14,504)	56,599	—	131,785
Internal net interest income/(expense)	(33,466)	56,086	(22,620)	—	—
Net fee and commission income	14,171	10,205	104	—	24,480
Other operating income/(expense), net	1,231	(97)	(3,884)	1,441	(1,309)
Operating income	71,626	51,690	30,199	1,441	154,956
Operating expenses	(24,861)	(17,669)	(7,137)	(3,526)	(53,193)
Impairment losses on:					
Loans and advances to customers	(11,870)	(1,778)	—	—	(13,648)
Others	(211)	—	(4,454)	(2)	(4,667)
Operating profit/(loss)	34,684	32,243	18,608	(2,087)	83,448
Share of profits and losses of associates	—	—	—	963	963
Profit/(loss) before tax	34,684	32,243	18,608	(1,124)	84,411
Income tax expense					(19,532)
Profit for the period					64,879
Other segment information:					
Depreciation	1,683	1,222	755	385	4,045
Amortisation	269	206	126	37	638
Capital expenditure	1,108	799	501	263	2,671
As at 30 June 2008 (unaudited)					
Segment assets	3,534,316	847,035	4,944,499	40,539	9,366,389
Investments in associates	—	—	—	32,995	32,995
Total assets	3,534,316	847,035	4,944,499	73,534	9,399,384
Segment liabilities	4,002,880	3,706,400	1,113,887	22,451	8,845,618
Other segment information:					
Credit commitments	773,844	134,120	—	—	907,964

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

	Corporate banking	Personal banking	Treasury operations	Others	Total
Six months ended 30 June 2007 (unaudited)					
External net interest income/(expense)	70,428	(14,757)	46,538	—	102,209
Internal net interest income/(expense)	(18,017)	44,601	(26,584)	—	—
Net fee and commission income	7,109	9,354	74	—	16,537
Other operating income/(expense), net	(52)	—	(1,930)	825	(1,157)
Operating income	59,468	39,198	18,098	825	117,589
Operating expenses	(20,489)	(17,361)	(4,594)	(1,148)	(43,592)
Impairment losses on:					
Loans and advances to customers	(14,251)	(518)	—	—	(14,769)
Others	(289)	(204)	(54)	(85)	(632)
Operating profit/(loss)	24,439	21,115	13,450	(408)	58,596
Share of profits and losses of associates	—	—	—	7	7
Profit/(loss) before tax	24,439	21,115	13,450	(401)	58,603
Income tax expense					(17,213)
Profit for the period					41,390
Other segment information:					
Depreciation	1,741	1,995	439	100	4,275
Amortisation	184	312	63	18	577
Capital expenditure	747	881	194	44	1,866
As at 31 December 2007 (audited)					
Segment assets	3,304,163	800,948	4,555,289	23,140	8,683,540
Investments in associates	—	—	—	172	172
Total assets	3,304,163	800,948	4,555,289	23,312	8,683,712
Segment liabilities	3,718,053	3,346,591	1,063,941	11,451	8,140,036
Other segment information:					
Credit commitments	683,551	106,136	—	—	789,687

(b) Geographical segments

The Group operates principally in Mainland China with branches located in different provinces, autonomous regions and municipalities directly under the Government. The Group also has branches and subsidiaries operating outside Mainland China in Hong Kong, Macau, Singapore, Frankfurt, Luxembourg, Seoul, Busan, Tokyo, London, Almaty, Indonesia, Moscow, Doha and Dubai.

In presenting information on the basis of geographical segment, operating income and expense are based on the location of the branches that generate the revenue and incur the expense. Segment assets and capital expenditure are allocated based on the geographical locations of the underlying assets.

The details of the geographical segments are as follows:

- (i) Head Office: including the head office business division;
- (ii) Yangtze River Delta: including Shanghai, Zhejiang, Jiangsu and Ningbo;
- (iii) Pearl River Delta: including Guangdong, Shenzhen, Fujian and Xiamen;
- (iv) Bohai Rim: including Beijing, Tianjin, Hebei, Shandong and Qingdao;
- (v) Central China: including Shanxi, Henan, Hubei, Hunan, Anhui, Jiangxi and Hainan;
- (vi) Western China: including Chongqing, Sichuan, Guizhou, Yunnan, Guangxi, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang and Inner Mongolia;
- (vii) Northeastern China: including Liaoning, Heilongjiang, Jilin and Dalian; and
- (viii) Overseas and others: branches located outside Mainland China, and domestic and overseas subsidiaries.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Eliminations	Total
Six months ended 30 June 2008 (unaudited)										
External net interest income	59,546	23,445	13,191	8,015	9,939	12,834	2,391	2,424	—	131,785
Internal net interest income/(expenses)	(38,604)	6,202	5,215	14,632	5,091	4,533	3,327	(396)	—	—
Net fee and commission income	2,510	5,447	3,260	4,520	3,207	3,118	1,444	974	—	24,480
Other operating income/(expense), net	(6,802)	1,191	2,184	169	804	674	381	90	—	(1,309)
Operating income	16,650	36,285	23,850	27,336	19,041	21,159	7,543	3,092	—	154,956
Operating expenses	(5,139)	(9,896)	(6,480)	(8,976)	(8,350)	(9,052)	(4,110)	(1,190)	—	(53,193)
Impairment losses on:										
Loans and advances to customers	(104)	(3,201)	(2,738)	(3,990)	(1,756)	(1,860)	115	(114)	—	(13,648)
Others	(4,522)	23	102	(16)	(14)	(2)	(217)	(21)	—	(4,667)
Operating profit	6,885	23,211	14,734	14,354	8,921	10,245	3,331	1,767	—	83,448
Share of profits and losses of associates	—	—	—	—	—	—	—	963	—	963
Profit before tax	6,885	23,211	14,734	14,354	8,921	10,245	3,331	2,730	—	84,411
Income tax expense										(19,532)
Profit for the period										64,879
Other segment information:										
Depreciation	415	676	498	672	666	695	382	41	—	4,045
Amortisation	209	97	39	60	95	84	28	26	—	638
Capital expenditure	1,017	396	275	289	200	333	60	101	—	2,671
As at 30 June 2008 (unaudited)										
Segment assets	5,033,947	1,808,758	1,327,737	2,212,677	1,122,229	1,208,688	571,620	289,726	(4,216,111)	9,359,271
Investments in associates	—	—	—	—	—	—	—	32,995	—	32,995
Unallocated assets										7,118
Total assets										9,399,384
Segment liabilities	4,627,572	1,780,799	1,312,132	2,195,625	1,111,260	1,195,629	568,621	250,164	(4,216,111)	8,825,691
Unallocated liabilities										19,927
Total liabilities										8,845,618
Other segment information:										
Credit commitments	158,722	218,149	72,669	214,188	70,287	52,201	19,135	102,613	—	907,964

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North- eastern China	Overseas and others	Eliminations	Total
Six months ended										
30 June 2007										
(unaudited)										
External net interest income	51,823	17,629	8,852	3,747	6,842	8,980	2,028	2,308	—	102,209
Internal net interest income/(expenses)	(34,269)	4,972	4,157	13,684	4,646	4,397	3,057	(644)	—	—
Net fee and commission income	720	3,422	2,937	3,046	2,108	2,384	1,161	759	—	16,537
Other operating income/(expense), net	(2,389)	(70)	148	(6)	220	311	236	393	—	(1,157)
Operating income	15,885	25,953	16,094	20,471	13,816	16,072	6,482	2,816	—	117,589
Operating expenses	(4,922)	(7,689)	(5,291)	(6,918)	(6,801)	(7,383)	(3,774)	(814)	—	(43,592)
Impairment losses on:										
Loans and advances to customers	(410)	(3,515)	(2,892)	(3,095)	(2,074)	(2,461)	(300)	(22)	—	(14,769)
Others	—	(48)	(57)	(55)	(121)	(156)	(190)	(5)	—	(632)
Operating profit	10,553	14,701	7,854	10,403	4,820	6,072	2,218	1,975	—	58,596
Share of profits and losses of associates	6	—	—	—	—	—	—	1	—	7
Profit before tax	10,559	14,701	7,854	10,403	4,820	6,072	2,218	1,976	—	58,603
Income tax expense										(17,213)
Profit for the period										41,390
Other segment information:										
Depreciation	458	690	538	720	687	733	422	27	—	4,275
Amortisation	156	96	32	63	95	80	28	27	—	577
Capital expenditure	629	250	203	241	187	209	89	58	—	1,866
As at 31 December 2007 (audited)										
Segment assets	4,575,914	1,754,819	1,115,718	2,083,118	1,022,925	1,089,117	539,545	251,786	(3,755,235)	8,677,707
Investments in associates	—	—	—	—	—	—	—	172	—	172
Unallocated assets										5,833
Total assets										8,683,712
Segment liabilities	4,296,692	1,687,573	1,081,279	2,034,682	987,909	1,049,693	522,089	201,349	(3,755,235)	8,106,031
Unallocated liabilities										34,005
Total liabilities										8,140,036
Other segment information:										
Credit commitments	132,988	188,336	69,492	161,591	49,155	56,028	13,029	119,068	—	789,687

41. FINANCIAL INSTRUMENTS RISK MANAGEMENT

A description and an analysis of the major risks faced by the Group are as follows:

The board of directors has the ultimate responsibility for the Bank's risk management and oversees the risk management functions through the Risk Management Committee and the Audit Committee of the Board.

The President supervises the risk management strategies and reports directly to the Board. He chairs two management committees including the Risk Management Committee and the Asset and Liability Management Committee at the head office ("HO") level. These two committees formulate and make recommendations in respect of risk management strategies and policies through the President to the Risk Management Committee of the Board. The Bank's Chief Risk Officer assists the President to supervise and manage various risks of the Bank.

The Bank has also defined departments monitoring financial risks within the Bank, including the Credit Management Department, the Credit Review Department and the Credit Rating and Facility Department monitoring credit risk; the Risk Management Department together with the Asset and Liability Management Department monitoring market and liquidity risks; and the Internal Control and Compliance Department monitoring operational risk. The Risk Management Department at the head office is primarily responsible for coordinating and establishing a comprehensive risk management framework, preparing consolidated reports on the Bank's credit risk, market risk and operational risk and reporting directly to the Chief Risk Officer.

The Bank maintains a dual-reporting line structure at the branch level for risk management purposes. Under this structure, the Risk Management Departments of the branches report to both the corresponding Risk Management Departments at the head office and the management of the relevant branches.

(a) Credit risk

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate advance, commitment or investment of funds. The Group is exposed to credit risk primarily due to loans, guarantees and other credit related commitments.

The principal features of the Group's credit risk management function include:

- Centralised credit management procedures;
- Risk management rules and procedures that focus on risk control throughout the entire credit business process, including customer investigation and credit rating, granting of credit limits, loan evaluation, loan review and approval and post-disbursement loan monitoring;
- Stringent qualification system for the loan approval officers; and
- Information management systems designed to enable a real time risk monitoring.

To enhance the credit risk management practices, the Group also launches training programs periodically for credit officers at different levels.

In addition to the credit risk exposures on credit-related assets and due from banks and other financial institutions, credit risk also arises in other areas. For instance, credit risk exposure also arises from derivative financial instruments which is, however, limited to those with positive fair values, as recorded in the balance sheet. In addition, the Group also makes available to its customers guarantees which may require that the Group makes payments on their behalf. Such payments are collected from customers based on the terms of the agreements signed. They expose the Group to similar risks as loans and these are mitigated by the same control processes and policies.

Risk concentration

Credit risk is often greater when counterparties are concentrated in one single industry or geographical location or have comparable economic characteristics. The Group's credit risk is diversified by investing in different industry sectors and geographical locations.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or whether there are any liquidity problems of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed impairment and collectively assessed impairment.

Individually assessed loans

All corporate loans and discounted bills are individually reviewed for objective evidence of impairment and classified based on a five-tier classification system. Corporate loans and discounted bills that are classified as substandard, doubtful or loss are assessed individually for impairment.

If there is objective evidence that an impairment loss on a loan or advance has incurred on an individual basis, 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 discounted at the asset's original effective interest rate. The impairment loss is recognised in the income statement. In determining allowances on individual basis, the following factors are considered:

- The sustainability of the counterparty's business plan;
- Its ability to improve performance once a financial difficulty has arisen;
- Projected receipts and the expected payout should bankruptcy ensue;
- The availability of other financial support and the realisable value of collateral; and
- The timing of the expected cash flows.

It may not be possible to identify a single, discrete event that caused the impairment, but it may be possible to identify impairment through the combined effect of several events. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed loans

Loans that are assessed for impairment losses on a collective basis include the following:

- Homogeneous groups of loans, including all personal loans; and
- All loans for which no impairment can be identified individually, either due to the absence of any loss events or due to an inability to measure reliably the impact of potential loss events on future cash flows.

For the purpose of collective assessment, assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

Objective evidence of impairment losses on a collective basis consists of the observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans since the initial recognition of those loans, including:

- Adverse changes in the payment status of borrowers in the group of loans; and
- National or local economic conditions that correlate with defaults on assets in the portfolio of loans.

Homogenous Groups of Loans Not Considered Individually Significant

For homogeneous groups of loans, the Group uses an analysis of historical trends of probability of default and amount of consequential loss, as well as an evaluation of current economic conditions that may have a consequential impact on inherent losses in the portfolio.

Individually Assessed Loans with No Objective Evidence of Impairment

When no impairment can be identified for individual loans, either due to the absence of any loss events or due to an inability to measure reliably the impact of potential loss events on future cash flows, these loans are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This loss covers those loans that were impaired at the balance sheet date but which would not be individually identified as impaired until some time in the future. The collective impairment loss is assessed after taking into account:

- Historical loss experience in portfolios of similar risk characteristics; and
- The current economic and credit environment and, whether in management's experience, these indicate that the actual level of incurred but not yet identified losses is likely to be greater or less than that suggested by historical experience.

As soon as information that specifically identifies objective evidence of impairment on individual assets in a pool is available, those assets are excluded and individually assessed. 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 for impairment.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

Collateral

The amount and type of collateral required depends on the assessment of the credit risk of the counterparty. Guidelines are in place specifying the types of collateral and valuation parameters which can be accepted.

The main types of collateral obtained are as follows:

- For reverse repurchase transactions, mainly collateralised by bills, loans or investment securities;
- For commercial lending, mainly collateralised by charges over land and properties and other assets of the borrowers; and
- For retail lending, mainly collateralised by mortgages over residential properties.

Management monitors the market value of collateral periodically and requests additional collateral in accordance with the underlying agreement when it is considered necessary.

It is the Group's policy to dispose of repossessed assets in an orderly manner. In general, the Group does not occupy repossessed assets for business use.

(i) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

As at the balance sheet date, the maximum credit risk exposure of the Group without taking account of any collateral and other credit enhancements is set out below:

	30 June 2008 (unaudited)	31 December 2007 (audited)
Balances with central banks	1,441,618	1,103,223
Due from banks and other financial institutions	164,638	199,758
Financial assets held for trading	41,076	31,501
Financial assets designated at fair value through profit or loss	2,633	2,785
Derivative financial assets	25,354	22,769
Reverse repurchase agreements	59,182	75,880
Loans and advances to customers	4,233,318	3,957,542
Financial investments		
— Receivables	1,212,167	1,211,767
— Held-to-maturity debt securities	1,348,421	1,330,085
— Available-for-sale debt securities	584,678	524,723
Other assets	83,547	59,136
	9,196,632	8,519,169
Credit commitments	907,964	789,687
Maximum credit risk exposure	10,104,596	9,308,856

(ii) Risk concentrations

Credit risk is often greater when counterparties are concentrated in one single industry or geographic location or have comparable economic features. Besides, different geographic areas and industrial sectors have their unique characteristics in terms of economic development, and could present a different credit risk.

By geographic segment

The following tables break down the Group's maximum credit risk exposure at their carrying amounts, as categorised by the geographic segment.

30 June 2008 (unaudited)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Total
Balances with central banks	1,286,495	37,575	17,805	59,735	10,452	21,255	6,768	1,533	1,441,618
Due from banks and other financial institutions	90,013	9,272	2,651	16,746	6,336	5,791	292	33,537	164,638
Financial assets held for trading	37,552	—	—	—	—	—	—	3,524	41,076
Financial assets designated at fair value through profit or loss	—	—	—	—	—	—	—	2,633	2,633
Derivative financial assets	18,875	1,436	1,158	380	959	442	333	1,771	25,354
Reverse repurchase agreements	41,903	3,436	6,995	4,178	1,821	350	499	—	59,182
Loans and advances to customers	145,283	1,076,884	628,575	768,054	546,507	646,394	222,077	199,544	4,233,318
Financial investments									
— Receivables	1,206,167	—	—	—	—	—	6,000	—	1,212,167
— Held-to-maturity debt securities	1,145,115	38,243	31,506	118,366	537	656	6,358	7,640	1,348,421
— Available-for-sale debt securities	441,772	40,271	15,528	27,376	7,774	9,845	10,990	31,122	584,678
Other assets	44,875	8,394	4,590	7,734	5,412	6,159	2,746	3,637	83,547
	4,458,050	1,215,511	708,808	1,002,569	579,798	690,892	256,063	284,941	9,196,632
Credit commitments	158,722	218,149	72,669	214,188	70,287	52,201	19,135	102,613	907,964
	4,616,772	1,433,660	781,477	1,216,757	650,085	743,093	275,198	387,554	10,104,596

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

31 December 2007 (audited)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Total
Balances with central banks	990,607	23,534	17,386	39,254	8,819	17,133	5,358	1,132	1,103,223
Due from banks and other financial institutions	119,319	8,382	6,824	8,307	4,269	1,372	613	50,672	199,758
Financial assets held for trading	31,485	—	—	—	—	—	—	16	31,501
Financial assets designated at fair value through profit or loss	—	—	—	—	—	—	—	2,785	2,785
Derivative financial assets	20,340	548	504	114	182	177	304	600	22,769
Reverse repurchase agreements	47,346	4,615	6,995	10,272	6,121	101	430	—	75,880
Loans and advances to customers	170,777	1,019,596	594,918	708,864	509,742	592,264	208,173	153,208	3,957,542
Financial investments									
— Receivables	1,205,767	—	—	—	—	—	6,000	—	1,211,767
— Held-to-maturity debt securities	1,137,367	40,128	22,744	103,953	1,105	1,415	13,668	9,705	1,330,085
— Available-for-sale debt securities	422,538	22,723	13,394	21,383	7,198	9,405	4,125	23,957	524,723
Other assets	32,548	4,418	3,037	4,660	3,860	4,413	1,281	4,919	59,136
	4,178,094	1,123,944	665,802	896,807	541,296	626,280	239,952	246,994	8,519,169
Credit commitments	132,988	188,336	69,492	161,591	49,155	56,028	13,029	119,068	789,687
	4,311,082	1,312,280	735,294	1,058,398	590,451	682,308	252,981	366,062	9,308,856

By industry segment

The credit risk exposures of the Group mainly comprise loans and advances to customers, investments in securities and due from banks and other financial institutions. Details of the composition of the Group's investments in debt securities are set out in note 41(a)(iv) to the financial statements. The composition of the Group's gross loans and advances to customers by industry is analysed as follows:

	30 June 2008 (unaudited)	31 December 2007 (audited)
Manufacturing	791,347	758,655
Transportation and logistics	671,531	612,849
Power generation and supply	469,381	408,220
Property development	380,339	329,664
Water, environment and public utility management	250,019	231,309
Retail, wholesale and catering	226,354	201,018
Leasing and commercial services	199,200	171,511
Science, education, culture and sanitation	98,520	70,132
Construction	61,054	64,334
Others	194,577	209,825
Subtotal for corporate loans	3,342,322	3,057,517
Personal mortgage and business loans	705,676	664,171
Others	108,342	99,436
Subtotal for personal loans	814,018	763,607
Discounted bills	199,025	252,105
	4,355,365	4,073,229

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

(iii) Loans and advances to customers

The total credit risk exposures of loans and advances to customers are summarised as follows:

	30 June 2008 (unaudited)	31 December 2007 (audited)
Neither past due nor impaired	4,185,392	3,917,290
Past due but not impaired	64,837	44,165
Impaired	105,136	111,774
	4,355,365	4,073,229
Allowance for impairment losses	(122,047)	(115,687)
	4,233,318	3,957,542

Neither past due nor impaired

The loans and advances to customers of the Group that are "neither past due nor impaired" are classified as "Pass" or "Special mention" under the 5-tier loan classification system maintained by the Group. Management of the Group considers that these loans are exposed to normal business risk and there is no identifiable objective evidence of impairment for these loans which may incur losses to the Group at the balance sheet date.

The following table presents each type of loans and advances to customers which are neither past due nor impaired as at balance sheet date:

	30 June 2008 (unaudited)			31 December 2007 (audited)		
	Pass	Special mention	Total	Pass	Special mention	Total
Unsecured loans	1,285,489	17,466	1,302,955	1,118,366	18,224	1,136,590
Guaranteed loans	754,416	42,340	796,756	724,808	55,695	780,503
Loans secured by mortgages	1,471,635	69,959	1,541,594	1,334,705	97,713	1,432,418
Pledged loans	518,871	25,216	544,087	540,474	27,305	567,779
	4,030,411	154,981	4,185,392	3,718,353	198,937	3,917,290

Past due but not impaired

The following tables present the ageing analysis of each class of loans and advances to customers of the Group that are subject to credit risk which are past due but not impaired as at balance sheet date:

30 June 2008 (unaudited)

	Corporate loans	Personal loans	Total
Past due for:			
Less than one month	13,179	38,645	51,824
One to two months	542	6,834	7,376
Two to three months	44	5,062	5,106
Over three months	297	234	531
Total	14,062	50,775	64,837
Fair value of collateral held	19,061	114,867	133,928

31 December 2007 (audited)

	Corporate loans	Personal loans	Total
Past due for:			
Less than one month	5,734	26,309	32,043
One to two months	2,364	4,073	6,437
Two to three months	680	4,595	5,275
Over three months	410	—	410
Total	9,188	34,977	44,165
Fair value of collateral held	18,531	69,696	88,227

Impaired

Impaired loans and advances are defined as those loans and advances having objective evidence of impairment as a result of one or more events that occur after initial recognition and that event has an impact on the estimated future cash flows of loans and advances that can be reliably estimated. These loans and advances include corporate loans and personal loans which are graded as "Substandard", "Doubtful" or "Loss".

The fair value of collateral that the Group holds relating to loans individually determined to be impaired at 30 June 2008 amounted to RMB25,782 million (31 December 2007: RMB27,846 million). The collateral consists of land and properties, equipment and others.

Renegotiated loans and advances to customers

The Group has formulated a set of loans restructuring policies to renegotiate the contractual terms with customers, to maximise the collectibility of loans and manage customer relationships.

The carrying amount of renegotiated loans and advances to customers is as follows:

	30 June 2008 (unaudited)	31 December 2007 (audited)
Renegotiated loans and advances to customers	31,578	38,381
Impaired loans and advances to customers included in above	28,251	34,196

Collateral repossessed

During the period, the Group took possession of collateral held as security with a carrying amount of RMB1,989 million (six months ended 30 June 2007: RMB5,473 million). These collateral mainly comprise land and buildings and equipment.

(iv) Debt securities

The total credit risk exposures of debt securities are summarised as follows:

	30 June 2008 (unaudited)	31 December 2007 (audited)
Neither past due nor impaired	3,178,902	3,094,686
Impaired (i)		
Held-to-maturity debt securities	2,369	824
Available-for-sale debt securities (ii)	8,310	5,500
	3,189,581	3,101,010
Allowance for impairment losses	(606)	(149)
	3,188,975	3,100,861

- (i) The impaired debt securities are mainly issued by public sector entities, corporate entities, banks and other financial institutions, which are all individually assessed to be impaired. No collateral was held by the Group as security of the impaired investments.
- (ii) Impaired available-for-sale debt securities are measured at fair value, with any recognised impairment loss being deducted from the carrying amount directly.

Neither past due nor impaired

The credit risk of debt securities mainly arise from the risk that the issuer might default on a payment or go into liquidation. Debt securities by different types of issuers are generally subject to different degrees of credit risk.

The following tables present an analysis of debt securities by types of issuers and investments, which are neither past due nor impaired:

30 June 2008 (unaudited)

	Receivables	Held-to-maturity investments	Available-for-sale investments	Investments at fair value through profit or loss	Total
Governments and central banks	851,771	769,655	393,850	7,037	2,022,313
Policy banks	47,000	478,833	85,264	11,742	622,839
Public sector entities	—	22,118	17,415	807	40,340
Banks and other financial institutions	313,396	55,425	50,841	4,442	424,104
Corporate entities	—	20,627	28,998	19,681	69,306
	1,212,167	1,346,658	576,368	43,709	3,178,902

31 December 2007 (audited)

	Receivables	Held-to-maturity investments	Available-for-sale investments	Investments at fair value through profit or loss	Total
Governments and central banks	851,771	794,464	278,442	4,940	1,929,617
Policy banks	47,000	419,384	81,577	6,350	554,311
Public sector entities	—	29,386	53,665	2,237	85,288
Banks and other financial institutions	312,996	68,998	83,025	1,375	466,394
Corporate entities	—	17,178	22,514	19,384	59,076
	1,211,767	1,329,410	519,223	34,286	3,094,686

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

(b) Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from amount or maturity mismatches of assets and liabilities.

The Group manages its liquidity risk through the Asset and Liability Management Department and aims at:

- optimising the assets and liabilities structure;
- maintaining the stability of the deposit base and the diversification of funding sources;
- projecting cash flows and evaluating the level of current assets; and
- in terms of liquidity of the branches, maintaining an efficient internal fund transfer mechanism.

(i) Analysis of the remaining maturity of the Group's assets and liabilities as at the balance sheet date is set below:

30 June 2008 (unaudited)

	Overdue/ repayable on demand	Less than one month	One month to three months	Three months to one year	One to five years	More than five years	Undated	Total
Assets:								
Cash and balances with central banks	157,198	—	—	—	—	—	1,327,324	1,484,522
Due from banks and other financial institutions (i)	24,633	157,379	27,769	10,125	3,914	—	—	223,820
Financial assets held for trading	—	531	1,165	19,332	17,795	2,253	30	41,106
Financial assets designated at fair value through profit or loss	—	—	—	129	1,517	987	—	2,633
Derivative financial assets	—	12,508	728	8,609	2,317	1,192	—	25,354
Loans and advances to customers	8,932	212,561	384,016	1,200,846	1,133,485	1,246,224	47,254	4,233,318
Investments								
— Receivables	—	—	—	—	1,099,767	112,400	—	1,212,167
— Held-to-maturity debt securities	—	15,354	28,794	165,614	786,879	351,780	—	1,348,421
— Available-for-sale investments	—	53,717	78,627	177,358	183,405	91,571	4,748	589,426
— Investments in associates	—	—	—	—	—	—	32,995	32,995
Property and equipment	—	—	—	—	—	—	78,340	78,340
Others	40,038	7,110	4,702	34,259	9,611	1,469	30,093	127,282
Total assets	230,801	459,160	525,801	1,616,272	3,238,690	1,807,876	1,520,784	9,399,384
Liabilities:								
Financial assets designated at fair value through profit or loss	1	1,792	579	2,942	3,586	222	—	9,122
Derivative financial liabilities	—	583	1,562	2,307	2,961	1,428	—	8,841
Due to banks and other financial institutions (ii)	782,613	231,860	26,022	12,270	1,163	—	—	1,053,928
Due to customers (iii)	3,824,167	606,884	649,906	2,025,133	429,679	3,507	—	7,539,276
Subordinated bonds	—	—	—	—	—	35,000	—	35,000
Others	111,988	6,504	15,827	40,989	17,034	7,109	—	199,451
Total liabilities	4,718,769	847,623	693,896	2,083,641	454,423	47,266	—	8,845,618
Net liquidity gap	(4,487,968)	(388,463)	(168,095)	(467,369)	2,784,267	1,760,610	1,520,784	553,766

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(iii) Includes certificates of deposit

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

31 December 2007 (audited)

	Overdue/ repayable on demand	Less than one month	One month to three months	Three months to one year	One to five years	More than five years	Undated	Total
Assets:								
Cash and balances with central banks	122,451	—	—	—	—	—	1,019,895	1,142,346
Due from banks and other financial institutions (i)	19,031	164,672	42,928	42,843	6,164	—	—	275,638
Financial assets held for trading	—	1,473	6,204	18,712	4,089	1,023	35	31,536
Financial assets designated at fair value through profit or loss	—	94	107	21	1,308	1,255	—	2,785
Derivative financial assets	—	12,657	2,733	5,116	740	1,523	—	22,769
Loans and advances to customers	5,951	199,793	364,512	1,182,578	1,057,925	1,113,118	33,665	3,957,542
Investments								
— Receivables	—	—	—	—	1,099,767	112,000	—	1,211,767
— Held-to-maturity debt securities	—	94,418	79,300	154,138	653,408	348,821	—	1,330,085
— Available-for-sale investments	—	3,158	23,339	211,282	151,168	135,776	6,432	531,155
— Investments in associates	—	—	—	—	—	—	172	172
Property and equipment	—	—	—	—	—	—	80,266	80,266
Others	20,978	9,405	9,030	21,418	8,039	735	28,046	97,651
Total assets	168,411	485,670	528,153	1,636,108	2,982,608	1,714,251	1,168,511	8,683,712
Liabilities:								
Financial liabilities designated at fair value through profit or loss	2	852	1,632	5,764	5,902	1,438	—	15,590
Derivative financial liabilities	—	516	733	2,046	2,225	1,607	—	7,127
Due to banks and other financial institutions (ii)	683,288	289,317	17,953	7,839	285	—	—	998,682
Due to customers (iii)	3,817,479	552,438	546,154	1,506,416	472,955	3,533	—	6,898,975
Subordinated bonds	—	—	—	—	—	35,000	—	35,000
Others	93,727	5,104	14,131	49,766	13,933	8,001	—	184,662
Total liabilities	4,594,496	848,227	580,603	1,571,831	495,300	49,579	—	8,140,036
Net liquidity gap	(4,426,085)	(362,557)	(52,450)	64,277	2,487,308	1,664,672	1,168,511	543,676

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(iii) Includes certificates of deposit

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

(ii) Maturity analysis of contractual undiscounted cash flows

The tables below summarise the maturity profile of the Group financial instruments based on the contractual undiscounted cash flows. The balances of some accounts in the below tables will be different to the balances on the balance sheet as the tables incorporate all cash flows relating to both principal and interest. The Group's expected cash flows on these instruments may vary significantly from this analysis. For example: demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

30 June 2008 (unaudited)

	Overdue/ repayable on demand	Less than one month	One month to three months	Three months to one year	One to five years	More than five years	Undated	Total
Non-derivative cash flows:								
Assets:								
Cash and balances with central banks	157,198	—	—	—	—	—	1,327,324	1,484,522
Due from banks and other financial institutions (i)	24,671	160,240	28,311	10,652	4,110	—	—	227,984
Financial assets held for trading	—	556	1,293	20,125	19,802	2,507	30	44,313
Financial assets designated at fair value through profit or loss	—	11	27	237	1,878	2,232	—	4,385
Loans and advances to customers (ii)	18,884	230,553	450,256	1,399,680	1,649,759	2,025,979	97,310	5,872,421
Investments	—	72,989	121,793	410,362	2,302,611	666,233	38,199	3,612,187
Others	28,985	—	—	—	—	—	—	28,985
	229,738	464,349	601,680	1,841,056	3,978,160	2,696,951	1,462,863	11,274,797

(i) Includes reverse repurchase agreements

(ii) Renegotiated loans' contractual undiscounted cash flows follow the negotiated term to determine the maturity profile.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

30 June 2008 (unaudited)

	Overdue/ repayable on demand	Less than one month	One month to three months	Three months to one year	One to five years	More than five years	Undated	Total
Non-derivative cash flows:								
Liabilities:								
Financial liabilities designated at fair value through profit or loss	1	1,809	638	3,047	3,680	225	—	9,400
Due to banks and other financial institutions (i)	782,613	232,135	26,287	12,733	1,221	—	—	1,054,989
Due to customers (ii)	3,824,167	626,199	670,590	2,103,280	461,484	4,190	—	7,689,910
Subordinated bonds	—	—	1,094	199	6,466	39,239	—	46,998
Others	73,516	320	7,372	20,448	11,829	7,040	—	120,525
	4,680,297	860,463	705,981	2,139,707	484,680	50,694	—	8,921,822
Derivative cash flows:								
Derivative financial instruments settled on net basis	—	21	(41)	(71)	(1,468)	(1,244)	—	(2,803)
Total inflow	—	92,643	99,403	196,936	18,223	3	—	407,208
Total outflow	—	(91,390)	(96,776)	(192,160)	(18,281)	(3)	—	(398,610)
Derivative financial instruments settled on gross basis	—	1,253	2,627	4,776	(58)	—	—	8,598

(i) Includes repurchase agreements

(ii) Includes certificates of deposit

31 December 2007 (audited)

	Overdue/ repayable on demand	Less than one month	One month to three months	Three months to one year	One to five years	More than five years	Undated	Total
Non-derivative cash flows:								
Assets:								
Cash and balances with central banks	122,451	—	—	—	—	—	1,019,895	1,142,346
Due from banks and other financial institutions (i)	19,221	165,469	43,454	44,240	6,393	—	—	278,777
Financial assets held for trading	—	1,483	6,304	19,055	4,759	1,181	35	32,817
Financial assets designated at fair value through profit or loss	—	105	135	114	1,637	3,250	—	5,241
Loans and advances to customers (ii)	7,357	228,481	406,873	1,345,145	1,492,964	1,805,204	92,609	5,378,633
Investments	—	101,078	116,780	438,417	2,170,744	797,928	7,052	3,631,999
Others	19,413	—	—	—	—	—	—	19,413
	168,442	496,616	573,546	1,846,971	3,676,497	2,607,563	1,119,591	10,489,226

(i) Includes reverse repurchase agreements

(ii) Renegotiated loans' contractual undiscounted cash flows follow the negotiated term to determine the maturity profile.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

31 December 2007 (audited)

	Overdue/ repayable on demand	Less than one month	One month to three months	Three months to one year	One to five years	More than five years	Undated	Total
Non-derivative cash flows:								
Liabilities:								
Financial liabilities designated at fair value through profit or loss								
	2	863	1,761	6,015	6,416	1,715	—	16,772
Due to banks and other financial institutions (i)	683,288	289,789	18,129	7,994	301	—	—	999,501
Due to customers (ii)	3,817,479	562,271	555,877	1,533,233	489,789	3,847	—	6,962,496
Subordinated bonds	—	—	183	1,077	5,039	41,230	—	47,529
Others	60,140	244	7,687	36,373	9,258	7,879	—	121,581
	4,560,909	853,167	583,637	1,584,692	510,803	54,671	—	8,147,879
Derivative cash flows:								
Derivative financial instruments settled on net basis								
	—	—	(8)	—	(38)	(243)	—	(289)
Total inflow	4	117,026	121,842	207,256	25,917	20,927	44	493,016
Total outflow	(4)	(114,602)	(118,311)	(198,871)	(25,694)	(21,609)	(13)	(479,104)
Derivative financial instruments settled on gross basis								
	—	2,424	3,531	8,385	223	(682)	31	13,912

(i) Includes repurchase agreements

(ii) Includes certificates of deposit

(iii) Contractual expiry by maturity of the commitments

The management expects that not all of the commitments will be drawn before expiry of the commitments.

	Overdue/ repayable on demand	Less than one month	One month to three months	Three months to one year	One to five years	More than five years	Undated	Total
30 June 2008 (unaudited)								
Off-balance sheet credit commitments	627,772	45,232	113,202	107,007	9,794	4,957	—	907,964
31 December 2007 (audited)								
Off-balance sheet credit commitments	578,726	32,094	68,907	109,950	10	—	—	789,687

(c) Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices. Market risk arises from both the Group's trading and non-trading business.

The Group is primarily exposed to structural interest rate risk arising from commercial banking and position risk arising from treasury transactions. Interest rate risk is inherent in many of its businesses and largely arises from mismatches between the re-pricing dates of assets and liabilities.

The Group's foreign exchange exposure mainly comprises exposures from the mismatch of foreign exchange assets and liabilities, and off-balance sheet foreign exchange positions arising from derivative transactions.

The Group considers the market risk arising from commodity or stock prices in respect of its investment portfolios as immaterial.

Sensitivity analysis, interest rate gap analysis and foreign exchange risk concentration analysis are the major market risk management tools used by the Group. The Bank monitors market risk separately in respect of trading and other non-trading portfolios. The Value-at-risk ("VaR") analysis is a major tool used by the Bank since the second quarter of 2008 to measure and monitor the market risk of its trading portfolios at the HO level. The following sections include sensitivity analysis based on the Group's currency risk exposure and interest rate risk exposure (both trading and non-trading portfolios), as well as a VaR by risk type of the Group's trading portfolios at HO level.

(i) VaR of trading portfolios

VaR is a statistical technique which estimates the potential maximum losses that could occur on risk positions taken due to movements in market rates, foreign exchange rates or prices over a specified time horizon and at a given level of confidence. The Bank adopts a historical simulation model and calculates trading portfolio VaR with 250 days historical market data (with 99% confidence level, and 1-day holding period).

A summary of the VaR by risk type of the Bank's trading portfolios at HO level (including investments held for trading and foreign exchange transactions) is as follows:

	Second quarter of 2008 (unaudited)			
	30 June 2008	Average	Highest	Lowest
Interest rate risk	59	62	90	34
Foreign exchange risk	26	42	83	21
Total portfolio VaR	65	78	103	44

VaR for each risk factor is the derived largest potential loss due to fluctuations solely in that risk factor. As there was diversification effect due to the correlation amongst the risk factors, the individual VaR did not add up to the total portfolio VaR.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

Although VaR is an important tool for measuring market risk under normal market environment, the assumptions on which the model is based do give rise to some limitations, including the following:

- (1) VaR does not reflect liquidity risk. In the VaR model, a one-day holding period assumes that it is possible to hedge or dispose of positions within that period without restriction, and the price of the financial instruments will fluctuate in the given range, the correlation between these market prices will remain unchanged. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;
- (2) Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level;
- (3) Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, especially those of an exceptional nature due to large market moves.

(ii) Currency risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in US\$, HK\$ and, to a lesser extent, other currencies. Transactions in foreign currencies arise from the Group's treasury exposures and foreign operations.

The exchange rate of RMB to US\$ is managed under a floating exchange rate system. RMB has appreciated over US\$ over the past two years. The HK\$ exchange rate has been pegged to the US\$ and therefore the exchange rate of RMB to HK\$ has fluctuated in line with the changes in the exchange rate of RMB to US\$.

The Group manages its currency risk through various means including entering into hedging activities that are available to the Group.

The table below indicates sensitivity analysis of exchange rate changes of the currencies to which the Group had significant exposure on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the RMB, with all other variables held constant, on profit before tax and equity. A negative amount in the table reflects a potential net reduction in profit before tax or equity, while a positive amount reflects a potential net increase.

This effect, however, is based on the assumption that the Group's foreign exchange exposure as at period end are kept unchanged and, therefore, has not incorporated actions that would be taken by the Group to mitigate the adverse impact of this foreign exchange risk.

Currency	Change in currency rate in %	Effect on profit before tax		Effect on equity	
		30 June 2008 (unaudited)	31 December 2007 (audited)	30 June 2008 (unaudited)	31 December 2007 (audited)
US\$	-1%	(169)	(999)	(84)	(126)
HK\$	-1%	(24)	151	(144)	24

While the table above indicates the effect on profit before tax and equity of 1% depreciation of US\$ and HK\$, there will be an opposite effect with the same amount if the currencies appreciate by the same percentage.

A breakdown of the assets and liabilities analysed by currency is as follows:

30 June 2008 (unaudited)

	RMB	US\$	HK\$	Others	Total
Assets:					
Cash and balances with central banks	1,471,676	8,501	2,265	2,080	1,484,522
Due from banks and other financial institutions (i)	98,463	105,281	6,177	13,899	223,820
Financial assets held for trading	37,486	1,284	1,674	662	41,106
Financial assets designated at fair value through profit or loss	—	1,308	272	1,053	2,633
Derivative financial assets	22,731	1,739	56	828	25,354
Loans and advances to customers	3,888,313	219,566	99,552	25,887	4,233,318
Investments	2,967,525	163,583	7,085	44,816	3,183,009
Property and equipment	77,633	283	142	282	78,340
Others	110,806	9,063	6,133	1,280	127,282
Total assets	8,674,633	510,608	123,356	90,787	9,399,384
Liabilities:					
Financial liabilities designated at fair value through profit or loss	453	5,681	2,571	417	9,122
Derivative financial liabilities	3,039	4,846	180	776	8,841
Due to banks and other financial institutions (ii)	916,142	116,020	10,737	11,029	1,053,928
Due to customers (iii)	7,243,704	162,146	99,086	34,340	7,539,276
Subordinated bonds	35,000	—	—	—	35,000
Others	181,232	9,282	2,471	6,466	199,451
Total liabilities	8,379,570	297,975	115,045	53,028	8,845,618
Net position	295,063	212,633	8,311	37,759	553,766
Off-balance sheet credit commitments	616,624	184,790	61,863	44,687	907,964

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(iii) Includes certificates of deposit

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

31 December 2007 (audited)

	RMB	US\$	HK\$	Others	Total
Assets:					
Cash and balances with central banks	1,130,381	7,372	2,557	2,036	1,142,346
Due from banks and other financial institutions (i)	102,442	159,612	4,789	8,795	275,638
Financial assets held for trading	31,415	85	36	—	31,536
Financial assets designated at fair value through profit or loss	—	1,364	437	984	2,785
Derivative financial assets	19,390	1,713	167	1,499	22,769
Loans and advances to customers	3,631,681	208,576	92,172	25,113	3,957,542
Investments	2,862,544	192,208	6,626	11,801	3,073,179
Property and equipment	79,744	315	95	112	80,266
Others	86,706	4,267	3,371	3,307	97,651
Total assets	7,944,303	575,512	110,250	53,647	8,683,712
Liabilities:					
Financial liabilities designated at fair value through profit or loss	17	12,079	3,207	287	15,590
Derivative financial liabilities	1,556	3,857	228	1,486	7,127
Due to banks and other financial institutions (ii)	915,257	64,818	8,364	10,243	998,682
Due to customers (iii)	6,626,810	140,470	105,923	25,772	6,898,975
Subordinated bonds	35,000	—	—	—	35,000
Others	163,996	10,958	3,695	6,013	184,662
Total liabilities	7,742,636	232,182	121,417	43,801	8,140,036
Net position	201,667	343,330	(11,167)	9,846	543,676
Off-balance sheet credit commitments	491,832	171,763	94,051	32,041	789,687

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(iii) Includes certificates of deposit

(iii) Interest rate risk

The Group's interest rate risk arises from the differences in timing between contractual maturities and repricing of interest-bearing assets and liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB. The PBOC establishes RMB benchmark interest rates which include a cap for RMB deposit rates and a floor for RMB loan rates.

The Group manages its interest rate risk by:

- regularly monitoring the macroeconomic factors that may have impact on the PBOC benchmark interest rates;
- optimising the differences in timing between contractual maturities and repricing of interest-generating assets and interest-bearing liabilities; and
- managing the deviation of the pricing of interest-generating assets and interest-bearing liabilities from the PBOC benchmark interest rates.

A principal part of the Group's management of interest rate risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modeling). The Group aims to mitigate the impact of prospective interest rate movements which could reduce future net interest income, while balancing the cost of such hedging on the current revenue.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's interest income and equity.

The sensitivity of the interest income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the financial assets and financial liabilities held at period/year end subject to re-pricing within the coming period, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges at period/year end for the effects of the assumed changes in interest rates.

	Sensitivity of net interest income		Sensitivity of equity	
	30 June 2008 (unaudited)	31 December 2007 (audited)	30 June 2008 (unaudited)	31 December 2007 (audited)
Change in basis points				
+100BP	(20,441)	(18,160)	(8,636)	(9,213)
-100BP	20,441	18,160	8,828	9,452

The interest rate sensitivities set out in the table above are for illustration only and are based on simplified scenarios. The figures represent the effect of the pro forma movements in net interest income and equity based on the projected yield curve scenarios and the Group's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by management to mitigate the impact of this interest rate risk. The projections above also assume that interest rates of all maturities 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.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

The tables below summarise the contractual repricing or maturity date, whichever is earlier, of the Group's financial assets and liabilities.

30 June 2008 (unaudited)

	Less than three months	Three months to one year	One to five years	More than five years	Non- interest- bearing	Total
Assets:						
Cash and balances with central banks	1,329,380	—	—	—	155,142	1,484,522
Due from banks and other financial institutions (i)	209,518	10,125	3,914	—	263	223,820
Financial assets held for trading	7,446	21,316	12,058	256	30	41,106
Financial assets designated at fair value through profit or loss	1,024	69	607	933	—	2,633
Derivative financial assets	—	—	—	—	25,354	25,354
Loans and advances to customers	1,186,992	3,046,326	—	—	—	4,233,318
Investments	288,002	511,185	1,894,620	451,458	37,744	3,183,009
Property and equipment	—	—	—	—	78,340	78,340
Others	—	—	—	—	127,282	127,282
Total assets	3,022,362	3,589,021	1,911,199	452,647	424,155	9,399,384
Liabilities:						
Financial liabilities designated at fair value through profit or loss	3,052	2,681	3,389	—	—	9,122
Derivative financial liabilities	—	—	—	—	8,841	8,841
Due to banks and other financial institutions (ii)	1,040,396	12,270	1,163	—	99	1,053,928
Due to customers (iii)	4,956,623	2,024,693	429,591	3,507	124,862	7,539,276
Subordinated bonds	9,000	—	13,000	13,000	—	35,000
Others	—	—	—	—	199,451	199,451
Total liabilities	6,009,071	2,039,644	447,143	16,507	333,253	8,845,618
Interest rate mismatch	(2,986,709)	1,549,377	1,464,056	436,140	N/A	N/A

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(iii) Includes certificates of deposit

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

(In RMB millions, unless otherwise stated)

31 December 2007 (audited)

	Less than three months	Three months to one year	One to five years	More than five years	Non- interest- bearing	Total
Assets:						
Cash and balances with central banks	1,023,860	—	—	—	118,486	1,142,346
Due from banks and other financial institutions (i)	225,681	42,843	6,164	—	950	275,638
Financial assets held for trading	8,626	19,923	2,862	90	35	31,536
Financial assets designated at fair value through profit or loss	1,014	—	570	1,201	—	2,785
Derivative financial assets	—	—	—	—	22,769	22,769
Loans and advances to customers	1,510,826	2,446,716	—	—	—	3,957,542
Investments	287,056	547,357	1,750,920	481,242	6,604	3,073,179
Property and equipment	—	—	—	—	80,266	80,266
Others	—	—	—	—	97,651	97,651
Total assets	3,057,063	3,056,839	1,760,516	482,533	326,761	8,683,712
Liabilities:						
Financial liabilities designated at fair value through profit or loss	7,108	6,923	970	589	—	15,590
Derivative financial liabilities	—	—	—	—	7,127	7,127
Due to banks and other financial institutions (ii)	989,856	7,839	285	—	702	998,682
Due to customers (iii)	4,776,594	1,506,322	472,861	3,533	139,665	6,898,975
Subordinated bonds	9,000	—	13,000	13,000	—	35,000
Others	—	—	—	—	184,662	184,662
Total liabilities	5,782,558	1,521,084	487,116	17,122	332,156	8,140,036
Interest rate mismatch	(2,725,495)	1,535,755	1,273,400	465,411	N/A	N/A

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(iii) Includes certificates of deposit

42. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table summarises the carrying values and the fair values of receivables, held-to-maturity debt securities and subordinated bonds for which their fair values have not been presented or disclosed above:

	Carrying value	Fair value
30 June 2008 (unaudited):		
Receivables	1,212,167	1,207,093
Held-to-maturity debt securities	1,348,421	1,322,952
Subordinated bonds	35,000	32,491
31 December 2007 (audited):		
Receivables	1,211,767	1,206,033
Held-to-maturity debt securities	1,330,085	1,309,831
Subordinated bonds	35,000	32,505

Subject to the existence of an active market, such as an authorised securities exchange, the market value is the best reflection of the fair value of financial instruments. As there is no available market value for certain of the financial assets and liabilities held and issued by the Group, the discounted cash flow method or other valuation methods described below are adopted to determine the fair values of these assets and liabilities:

- (a) The receivables are non-transferable. The fair values of those receivables relating to the restructuring of the Bank are estimated on the basis of the stated interest rates and the consideration of the relevant special clauses of the instrument evaluated in the absence of any other relevant observable market data, and the fair values approximate to their carrying amounts. The fair values of receivables other than those relating to the restructuring of the Bank are estimated on the bases of pricing models or discounted cash flows.
- (b) The fair values of held-to-maturity debt securities and subordinated bonds are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated on the bases of pricing models or discounted cash flows.

All of the above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

Those financial instruments for which their carrying amounts are the reasonable approximations of their fair values because, for example, they are short term in nature or reprice to current market rates frequently, are as follows:

Assets

Cash and balance with central banks
 Due from banks and other financial institutions
 Reverse repurchase agreements
 Loans and advances to customers
 Other assets

Liabilities

Due to banks and other financial institutions
 Repurchase agreements
 Due to customers
 Other financial liabilities

43. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current period's presentation.

44. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 21 August 2008.

Unaudited Supplementary Financial Information

30 June 2008
(In RMB millions, unless otherwise stated)

(a) Differences between the financial statements prepared under International Financial Reporting Standards (“IFRSs”) and those prepared in accordance with Chinese Accounting Standards (“CASs”) promulgated by the Ministry of Finance of the PRC (the “MOF”)

A reconciliation of differences between the financial statements prepared under CASs and those prepared in accordance with IFRSs is set out below.

	Six months ended 30 June	
	2008	2007
Profit for the period attributable to equity holders of the parent company under CASs	64,531	40,844
Recognition of revaluation surplus on disposed assets	—	192
Profit for the period attributable to equity holders of the parent company under IFRSs	64,531	41,036

	30 June	31 December
	2008	2007
Equity attributable to equity holders of the parent company under CASs	550,007	538,947
Reversal of revaluation surplus	(576)	(576)
Equity attributable to equity holders of the parent company under IFRSs	549,431	538,371

During the Group’s restructuring, the Group performed revaluation on assets pursuant to relevant requirements, with the revaluation surplus recognised in the capital reserve. Under IFRSs, certain assets (including equity investments, repossessed assets and intangible assets, etc.) were carried at cost and the revaluation surplus was reversed. Upon disposal of such assets, adjustments on recognition of revaluation surplus were reversed accordingly. In addition, for the available-for-sale equity investments included in these assets, when they meet the specific conditions to be measured at fair value under IFRSs, the adjustments on reversal of revaluation surplus were made to the investment revaluation reserve.

(b) Liquidity ratios

	30 June	30 June
	2008	2007
RMB current assets to RMB current liabilities	29.0%	28.5%
Foreign currency current assets to foreign currency current liabilities	83.9%	56.9%

The liquidity ratios are calculated in accordance with the formula promulgated by the China Banking Regulatory Commission (the “CBRC”) and based on the financial information prepared in accordance with CASs.

Unaudited Supplementary Financial Information

30 June 2008

(In RMB millions, unless otherwise stated)

(c) Foreign currency concentrations other than RMB

	US\$	HK\$	Others	Total
As at 30 June 2008				
Spot assets	510,325	123,051	57,786	691,162
Spot liabilities	(297,975)	(115,045)	(53,028)	(466,048)
Forward purchases	195,277	22,909	29,934	248,120
Forward sales	(344,588)	(14,423)	(32,280)	(391,291)
Net option position	(40,925)	(7)	6	(40,926)
Net long position	22,114	16,485	2,418	41,017
Net structural position	283	305	33,001	33,589
As at 31 December 2007				
Spot assets	575,197	109,983	53,542	738,722
Spot liabilities	(232,182)	(121,417)	(43,801)	(397,400)
Forward purchases	174,088	21,990	59,594	255,672
Forward sales	(319,601)	(28,073)	(26,009)	(373,683)
Net option position	(85,267)	(192)	(853)	(86,312)
Net long position	112,235	(17,709)	42,473	136,999
Net structural position	315	267	105	687

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority. 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; and
- investments in overseas subsidiaries and related companies.

(d) Capital management

The Group computes the capital adequacy ratios in accordance with the "Regulations Governing Capital Adequacy of Commercial Banks" and related regulations promulgated by the CBRC. The requirements pursuant to these regulations may have significant differences compared to those applicable in Hong Kong and other countries.

The capital adequacy ratios and related components of the Group are computed in accordance with the statutory financial statements of the Group prepared under the CASs.

	30 June 2008 (unaudited)	31 December 2007 (audited)
Core capital adequacy ratio	10.33%	10.99%
Capital adequacy ratio	12.46%	13.09%
Components of capital base		
Core capital:		
Share capital	334,019	334,019
Reserves	168,018	148,631
Minority interests	4,335	5,305
Total core capital	506,372	487,955
Supplementary capital:		
General provisions for doubtful debts	60,423	47,979
Subordinated bonds	35,000	35,000
Other supplementary capital	12,344	11,669
Total supplementary capital	107,767	94,648
Total capital base before deductions	614,139	582,603
Deductions (i):		
Unconsolidated equity investments	(17,547)	(3,868)
Goodwill	(23,328)	(1,878)
Others (ii)	(3,126)	(116)
Net capital base	570,138	576,741
Core capital base after deductions (i)	472,708	484,085
Risk weighted assets and market risk capital adjustment	4,575,361	4,405,345

(i) Pursuant to the relevant regulations, the core capital base after deductions was derived by applying 50%, 100% and 50% of deductions in the unconsolidated equity investments, goodwill and others, respectively.

(ii) Others represent investments in those asset backed securities specified by the CBRC.

Unaudited Supplementary Financial Information

30 June 2008

(In RMB millions, unless otherwise stated)

(e) Cross-border claims

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

Cross-border claims include loans and advances to customers, balances with central banks, due from banks and other financial institutions, debt securities held for trading, financial assets designated at fair value through profit or loss, held-to-maturity debt securities and available-for-sale debt securities.

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 transfers are 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.

	Banks and other financial institutions	Public sector entities	Others	Total
As at 30 June 2008:				
Asia Pacific excluding Mainland China	53,840	3,947	111,370	169,157
— of which attributed to Hong Kong	27,589	2,646	83,465	113,700
Europe	90,988	912	13,210	105,110
North and South America	45,111	22,352	12,012	79,475
	189,939	27,211	136,592	353,742
As at 31 December 2007:				
Asia Pacific excluding Mainland China	74,696	2,011	111,659	188,366
— of which attributed to Hong Kong	15,945	880	85,559	102,384
Europe	144,065	2,457	15,528	162,050
North and South America	75,034	62,873	12,197	150,104
	293,795	67,341	139,384	500,520

(f) Loans and advances to customers*(i) Analysis by industry sector*

30 June 2008

	Gross loans and advances to customers	Loans covered by collateral	Overdue loans and advances to customers*	Loans and advances individually assessed to be impaired	Allowance for impairment losses		Total
					Individually assessed	Collectively assessed	
Manufacturing	791,347	331,397	50,757	49,156	30,598	12,615	43,213
Transportation and logistics	671,531	225,115	10,142	8,687	3,472	11,213	14,685
Power generation and supply	469,381	87,533	7,730	4,829	2,208	7,840	10,048
Property development	380,339	263,173	8,946	8,420	3,888	5,649	9,537
Water, environment and public utility management	250,019	86,825	1,223	1,039	432	4,215	4,647
Retail, wholesale and catering	226,354	131,220	14,861	15,050	8,473	3,015	11,488
Leasing and commercial services	199,200	83,236	1,738	1,488	678	3,134	3,812
Science, education, culture and sanitation	98,520	14,189	2,013	2,693	900	1,630	2,530
Construction	61,054	29,142	1,741	1,607	587	1,017	1,604
Others	194,577	28,776	3,681	2,987	2,245	2,693	4,938
Subtotal for corporate loans	3,342,322	1,280,606	102,832	95,956	53,481	53,021	106,502
Personal mortgage and business loans	705,676	673,523	49,456	—	—	11,727	11,727
Others	108,342	84,429	10,415	—	—	2,815	2,815
Subtotal for personal loans	814,018	757,952	59,871	—	—	14,542	14,542
Discounted bills	199,025	199,025	—	—	—	1,003	1,003
	4,355,365	2,237,583	162,703	95,956	53,481	68,566	122,047
Current market value of collateral held against the covered portion of overdue loans and advances*							130,959
Covered portion of overdue loans and advances*							81,773
Uncovered portion of overdue loans and advances*							80,930

* Loans and advances are classified as overdue when either the principal or interest is overdue. For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue.

Unaudited Supplementary Financial Information

30 June 2008

(In RMB millions, unless otherwise stated)

31 December 2007

	Gross loans and advances to customers	Loans covered by collateral	Overdue loans and advances to customers*	Loans and advances individually assessed to be impaired	Allowance for impairment losses		Total
					Individually assessed	Collectively assessed	
Manufacturing	758,655	295,368	54,463	55,884	34,241	10,213	44,454
Transportation and logistics	612,849	191,658	8,006	6,320	3,451	8,620	12,071
Power generation and supply	408,220	91,664	6,151	5,344	2,382	5,746	8,128
Property development	329,664	229,481	9,710	8,756	4,207	5,892	10,099
Water, environment and public utility management	231,309	55,145	1,069	1,118	451	3,178	3,629
Retail, wholesale and catering	201,018	97,803	16,792	16,454	9,584	2,603	12,187
Leasing and commercial services	171,511	57,412	1,607	1,374	693	2,303	2,996
Science, education, culture and sanitation	70,132	9,929	1,865	1,876	800	998	1,798
Construction	64,334	25,382	1,410	1,354	621	806	1,427
Others	209,825	28,907	4,004	4,575	2,514	2,340	4,854
Subtotal for corporate loans	3,057,517	1,082,749	105,077	103,055	58,944	42,699	101,643
Personal mortgage and business loans	664,171	627,874	36,941	—	—	10,401	10,401
Others	99,436	77,610	8,313	—	—	2,552	2,552
Subtotal for personal loans	763,607	705,484	45,254	—	—	12,953	12,953
Discounted bills	252,105	252,105	—	—	—	1,091	1,091
	4,073,229	2,040,338	150,331	103,055	58,944	56,743	115,687
Current market value of collateral held against the covered portion of overdue loans and advances*							145,164
Covered portion of overdue loans and advances*							86,067
Uncovered portion of overdue loans and advances*							64,264

* Loans and advances are classified as overdue when either the principal or interest is overdue. For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue.

*(ii) Overdue assets**Overdue loans and advances to customers*

	30 June 2008	31 December 2007
Gross loans and advances to customers of the Group which have been overdue with respect to either principal or interest for periods of:		
Between 3 and 6 months	4,761	4,631
Between 6 and 12 months	7,196	10,150
Over 12 months	79,526	86,771
Total	91,483	101,552
As a percentage of the total gross loans and advances to customers:		
Between 3 and 6 months	0.1%	0.1%
Between 6 and 12 months	0.2%	0.3%
Over 12 months	1.8%	2.1%
Total	2.1%	2.5%

The definition of overdue loans and advances is set out as follows:

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue.

(iii) Overdue and impaired loans and advances to customers by geographical segment

30 June 2008

	Overdue loans and advances to customers			Impaired loans and advances to customers		Collectively assessed allowance for impairment losses
	Gross amount	Individually assessed to be impaired	Individually assessed allowance for impairment losses	Individually assessed	Individually assessed allowance for impairment losses	
Head Office	2,991	304	234	365	301	1,460
Yangtze River Delta	19,162	8,954	4,980	9,848	5,655	17,690
Pearl River Delta	25,629	13,926	7,119	15,037	7,667	10,144
Bohai Rim	29,790	17,684	9,722	18,219	10,601	13,436
Central China	26,920	15,778	7,112	17,072	8,155	9,378
Western China	34,832	16,329	8,733	18,248	10,131	11,495
Northeastern China	21,496	15,139	9,722	16,304	10,571	4,482
Overseas and others	1,883	595	399	863	400	481
Total	162,703	88,709	48,021	95,956	53,481	68,566

Unaudited Supplementary Financial Information

30 June 2008

(In RMB millions, unless otherwise stated)

31 December 2007

	Overdue loans and advances to customers			Impaired loans and advances to customers		
	Gross amount	Individually assessed to be impaired	Individually assessed allowance for impairment losses	Individually assessed	Individually assessed allowance for impairment losses	Collectively assessed allowance for impairment losses
Head Office	2,410	414	284	414	344	1,369
Yangtze River Delta	15,502	8,585	5,406	10,600	6,478	14,338
Pearl River Delta	24,151	15,800	7,810	16,173	8,413	8,395
Bohai Rim	30,383	19,729	10,367	20,789	11,381	10,720
Central China	25,625	15,558	7,947	16,487	8,697	7,867
Western China	27,031	16,749	9,383	18,505	10,882	9,489
Northeastern China	22,886	18,180	11,313	19,230	12,375	4,127
Overseas and others	2,343	857	362	857	374	438
Total	150,331	95,872	52,872	103,055	58,944	56,743

(iv) Rescheduled loans and advances to customers

	30 June 2008		31 December 2007	
		% of total loans and advances		% of total loans and advances
Rescheduled loans and advances	31,578	0.7%	38,381	0.9%
Less: Rescheduled loans and advances overdue more than three months	(23,564)	(0.5%)	(28,765)	(0.7%)
Rescheduled loans and advances overdue less than three months	8,014	0.2%	9,616	0.2%

(g) Overdue placements with banks and other financial institutions

	30 June 2008	31 December 2007
Gross placements with banks and other financial institutions of the Group which have been overdue with respect to either principal or interest for periods of:		
Over 12 months	36	203
As a percentage of total gross placements with banks and other financial institutions:		
Over 12 months	—	0.1%

(h) Non-bank Mainland China Exposures

	30 June 2008	31 December 2007
On-balance sheet exposure	5,287,348	5,534,299
Off-balance sheet exposure	762,221	669,115
	6,049,569	6,203,414
Individually assessed impairment losses	51,624	58,645

Save as disclosed above, exposures to other non-bank counterparties outside Mainland China where the credit is granted for use in Mainland China are considered insignificant to the Group.

Definitions

In this report, unless the context otherwise requires, the following terms shall have the meanings set out below:

HIBOR	Hong Kong Interbank Offered Rate
LIBOR	London Interbank Offered Rate
Allianz	Allianz Group
the Bank/the Group	Industrial and Commercial Bank of China Limited; or jointly Industrial and Commercial Bank of China Limited and its controlling subsidiaries
Standard Bank	Standard Bank Group Limited
MOF	The Ministry of Finance of the People's Republic of China
Seng Heng Bank	Seng Heng Bank Limited
Goldman Sachs	The Goldman Sachs Group, Inc.
ICIC	Industrial and Commercial International Capital Limited
ICBC Credit Suisse Asset Management	ICBC Credit Suisse Asset Management Co., Ltd
ICBC (Asia)	Industrial and Commercial Bank of China (Asia) Limited
ICBC Middle East	Industrial and Commercial Bank of China (Middle East) Limited
IFRSs	The International Financial Reporting Standards promulgated by the International Accounting Standards Board, which comprise International Accounting Standards
Huijin	Central SAFE Investments Limited
Labor Contract Law	Labor Contract Law of the People's Republic of China
American Express	American Express Company
PBOC	The People's Bank of China
SSE	Shanghai Stock Exchange
SSE Listing Rules	Listing Rules of the Shanghai Stock Exchange
SSF	National Council for Social Security Fund
SEHK	The Stock Exchange of Hong Kong Limited
Hong Kong Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Hong Kong Securities and Futures Ordinance	Securities and Futures Ordinance of the Hong Kong Special Administrative Region
CASs	The Chinese Corporate Accounting Standards promulgated by the MOF in 2006, which includes the application guidelines and other relevant regulations
CBRC	China Banking Regulatory Commission
CSRC	China Securities Regulatory Commission



中國北京市西城區復興門內大街55號 郵編：100032
55 Fuxingmennei Avenue, Xicheng District, Beijing, China Post Code: 100032
www.icbc.com.cn, www.icbc-ltd.com