交通銀行
BANK OF COMMUNICATIONS

EXPO 2010 SHANGHAI CHINA

Global Partner of Expo 2010 Shanghai China

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

2008 Annual Report

Stock Code: 3328

BRIEF INTRODUCTION

Founded in 1908, Bank of Communications Co., Ltd. (the "**Bank**") is one of the oldest banks in China and one of the note-issuing banks in modern China. The Bank was listed on the Hong Kong Stock Exchange in June 2005 and on the Shanghai Stock Exchange in May 2007.

The Bank currently has 105 domestic branches, including 29 provincial branches, seven branches directly managed by Head Office, 69 provincial sub-branches and has established 2,636 outlets in 166 major cities in Mainland China. The Bank has also set up eight overseas branches in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt and Macau, as well as a representative office in London. According to the ranking of the "Top 1000 World Banks 2008" published by the British magazine "The Banker", the Bank's total assets ranked 66 and its Tier-1 capital ranked 54.

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

The Bank's Information Security Management System (ISMS) has passed the examination conducted by world-renowned verification authority, and the Bank is the first financial institution in Mainland China to obtain the ISO27001 certification on information security.

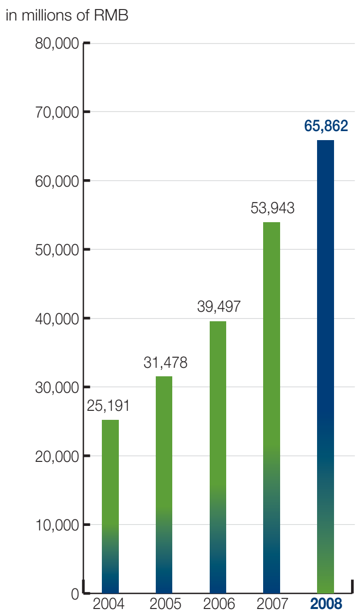
The Bank is the sole global commercial bank partner of the World Expo 2010 Shanghai China and will provide high quality and globalised financial services to both domestic and foreign customers.

The Bank's development strategy is being "a first-class public bank group focused on wealth management services by means of international expansion and by providing comprehensive services".

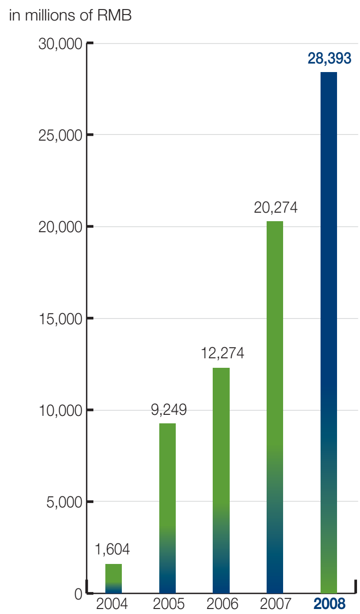
Contents

Financial Highlights

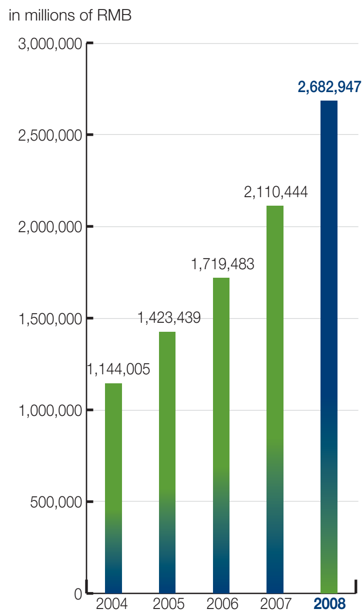
Net interest income



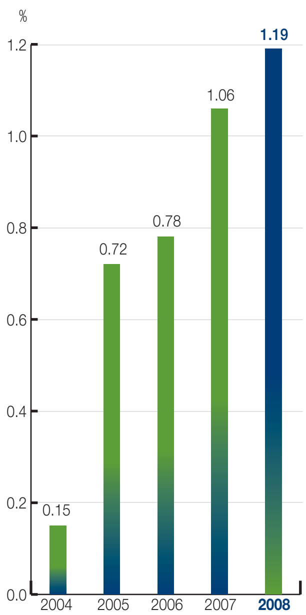
Net profit[Note]



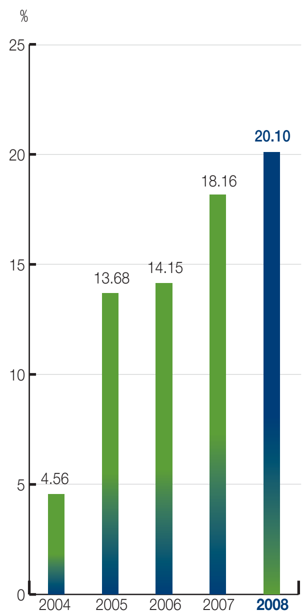
Total assets



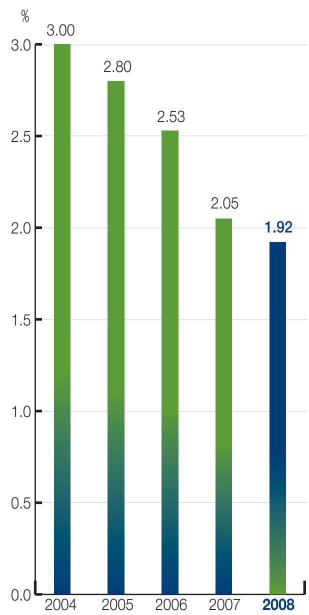
Return on average total assets



Return on average shareholders' equity[Note]



Impaired loans ratio



Note: Excluding minority interest

	2008	2007	2006	2005	2004 Adjusted[1]
Annual Results					(in millions of RMB)
Net interest income[2]	**65,862**	53,943	39,497	31,478	25,191
Operating profit before tax	**35,719**	31,114	17,405	12,843	7,750
Net profit (excluding minority interest)	**28,393**	20,274	12,274	9,249	1,604
At year end					(in millions of RMB)
Total assets	**2,682,947**	2,110,444	1,719,483	1,423,439	1,144,005
Includes: loans and advances to customers[2]	**1,328,590**	1,104,490	924,825	769,540	638,784
Total liabilities	**2,532,852**	1,977,123	1,628,988	1,340,293	1,091,902
Includes: due to customers[2]	**1,865,815**	1,555,599	1,344,177	1,212,824	1,023,334
Shareholders' equity	**150,095**	133,321	90,495	83,146	52,103
Shareholders' equity (excluding minority interest)	**149,662**	132,903	90,436	83,082	52,103
Per share					(in RMB Yuan)
Diluted earnings per share	**0.58**	0.42	0.27	0.22	0.06
Net assets per share	**3.06**	2.72	1.98	1.82	1.33
Net assets per share (excluding minority interest)	**3.05**	2.71	1.97	1.81	1.33
Major financial ratio					%
Return on average total assets[3]	**1.19**	1.06	0.78	0.72	0.15
Return on average shareholders' equity[4]	**20.10**	18.16	14.15	13.68	4.56
Cost to income ratio[5]	**39.94**	40.29	47.66	51.24	60.78
Impaired loans ratio[6]	**1.92**	2.05	2.53	2.80	3.00
Provision coverage of impaired loans (after deducting general reserves after tax)[7]	**116.83**	95.63	72.31	57.96	44.00
Provision coverage of impaired loans[8]	**166.10**	142.50	91.17	57.96	44.00
Capital adequacy ratio					%
Core capital adequacy ratio[9]	**9.54**	10.27	8.52	8.78	6.77
Capital adequacy ratio[9]	**13.47**	14.44	10.83	11.20	9.72

Notes:

1. In accordance with the provision of IAS 39 (revised 2003), the Group retrospectively adjusted the balance of investment securities as at 1 January 2005. Certain originated loans were reclassified to investment securities — available-for-sale, loans and receivables and financial assets held for trading and retrospective adjustments were also made to revaluation reserve and deferred tax accordingly.
2. The comparative data (including the net interest income, outstanding balances of loans and advances to customers before impairment allowances, impairment allowances and due to customers) are reclassified to conform with the disclosure of financial information for the Reporting Period. (similarly hereinafter)
3. Calculated by dividing net profit of the Reporting Period by the average of total assets at the beginning and at the end of the Reporting Period.
4. Calculated by dividing net profit (excluding minority interest) of the Reporting Period by the average shareholders' equity (excluding minority interest) at the beginning and at the end of the Reporting Period.
5. Calculated by dividing other operating expenses by the net operating income (which includes net interest income, net fee and commission income, dividend income, gains less losses from trading activities, gains less losses arising from de-recognition of investment securities and other operating income).
6. Calculated by dividing the outstanding balance of impaired loans by the outstanding balance of loans before impairment allowances at the end of the Reporting Period.
7. Calculated by dividing the outstanding balance of impairment allowances by the outstanding balance of impaired loans at the end of the Reporting Period.
8. Calculated by dividing the outstanding balance of impairment allowances including general reserves after tax by the outstanding balance of impaired loans at the end of the Reporting Period.
9. Calculated in accordance with the relevant regulatory practice in China's banking industry.

Corporate Information

LEGAL NAME

交通銀行股份有限公司

Bank of Communications Co., Ltd.

LEGAL REPRESENTATIVE

Hu Huaibang

DIRECTORS

Executive Directors

Hu Huaibang (Chairman)

Li Jun (Vice Chairman and President)

Peng Chun

Qian Wenhui

Non-executive Directors

Zhang Jixiang

Hu Huating

Qian Hongyi

Wong Tung Shun, Peter

Laura M. Cha

Ji Guoqiang

Lei Jun

Yang Fenglin

Independent Non-executive Directors

Xie Qingjian

Ian Ramsay Wilson

Thomas Joseph Manning

Chen Qingtai

Li Ka-cheung, Eric

Gu Mingchao

SUPERVISORS

Hua Qingshan (Chairman)

Guan Zhenyi

Yang Fajia

Wang Lisheng

Li Jin

Yan Hong

Zheng Li

Jiang Zuqi

Liu Sha

Chen Qing

Shuai Shi

COMPANY SECRETARY

Zhang Jixiang

AUTHORISED REPRESENTATIVES

Peng Chun

Zhang Jixiang

COMPANY ADDRESS AND CONTACT INFORMATION FOR INVESTORS

No. 188 Yincheng Zhong Road

Pudong New District

Shanghai 200120, PRC

Tel: 86-21-58766688

Fax: 86-21-58798398

E-mail: investor@bankcomm.com

Website: www.bankcomm.com

PLACE OF BUSINESS IN HONG KONG

20 Pedder Street, Central, Hong Kong

SELECTED NEWSPAPERS AND WEBSITES FOR INFORMATION DISCLOSURE

H shares: HKExnews website of the Hong Kong Stock Exchange
www.hkexnews.hk

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

PLACES WHERE THE ANNUAL REPORT CAN BE OBTAINED

The Head Office of the Bank and principal business locations

AUDITORS

PricewaterhouseCoopers
Deloitte Touche Tohmatsu CPA Ltd.

HONG KONG LEGAL ADVISER

Linklaters

PRC LEGAL ADVISER

King & Wood PRC Lawyers

A SHARES SPONSORS

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

SHARE REGISTRARS

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

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

PLACE OF LISTING, STOCK NAME AND STOCK CODE

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

OTHER INFORMATION

Initial registration date: 30 March 1987
Registration change date: 30 December 2008
Registration agencies: State Administration For Industry & Commerce (SAIC), PRC
Business license register No.: 100000000005954
Tax register No.: 31004310000595X
Organisation code: 10000595-X

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

Awards

EUROMONEY:

"China's Best Bank for Private Wealth Management"

"Best Domestic Bank in China on Cash Management 2008"

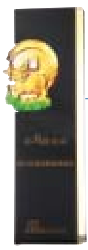
THE CHINESE BANKER:

"Innovest Corporate Responsibility Award"

"Best Wealth Management Award"

FINANCIAL TIMES:

"Nomination for Top 10 Chinese Global Brands"



SINA FINANCE:

"Wealth Management Award in Banking"

MONEYWEEK:

"China Best Private Bank"

"China Best Retail (Wealth Management) Bank"

CHINA BUSINESS NEWS:

"Best China Funded Bank — 2008"

"OTO Fortune" awarded the "Best Retail Financial Service Brand — 2008"

21ST CENTURY BUSINESS HERALD:

"2008 China Top 10 Green Credit Program"

THE ASSET MAGAZINE:

"Best Corporate Governance Enterprise in China"

SHANGHAI STOCK EXCHANGE AND SHENZHEN STOCK EXCHANGE:

"Top 100 Best A Share Companies in Investor Relationship Management"

"Social Responsibility Contribution Award"

JRJ.COM:

"2008 Best Wealth Management in Debt Securities and Money Market Products Award"

"2008 Best Wealth Management in Negotiable Instrument Award"

FINANCIAL NEWS:

"Most Efficient Bank Award"

"Best State-Owned Bank Award"

WORLD BRAND LAB:

"China's Brands Annual Awards (No.1 in the Banking Category)"

"China's Top 50 Most Respected Listed Companies"

"The Chinese Brand of the Year 2008 — Gold Prize (Top 10) in the Bank Category"

"China Buyer's Satisfaction Brand"

"The Chinese Brand of the Year 2008"

"China's Top 25 Most Respected Listed Companies"

Chairman's Statement

Hu Huaibang
Chairman

2008 was an extremely eventful and tumultuous year. At the same time when our country celebrated its 30th anniversary of market reform, our Bank also celebrated its centennial anniversary. Our Bank has long been upholding its tradition and reputation and remained strong through years of drastic changes in the last thirty years of Chinese history. As a pioneer of reform in the Chinese banking industry inheriting the century-long financial brand of China, we have witnessed the evolution of the Chinese financial industry and led the reform and development of the Chinese banking industry in the past twenty years. During this extraordinary time, I sincerely appreciate the immense trust and support showed by our shareholders and directors. With full understanding of the considerable responsibilities of leading such an excellent bank, I remain committed to do my best, working with all staff in the Bank, to scale new heights in the future.

OPERATING RESULTS

With strong support from both our domestic and overseas shareholders, our customers, the public and joint efforts by our staff, the Bank achieved remarkable results where respective lines of business scaled new heights in 2008, despite the impact of the global financial turmoil on the domestic economy. At 31 December 2008, our total assets were more than RMB2,600 billion, an increase of 27.13% since the beginning of the year. Net profit for 2008 reached RMB28.393 billion, an increase of 40.05% as compared to last year while return on average total assets and return on average shareholders' equity grew to 1.19% and 20.10%, respectively, representing an increase of 0.13 and 1.94 percentage points, respectively, as compared to the previous year. Capital adequacy ratio and core capital adequacy ratio were 13.47% and 9.54%, respectively, maintaining at a relatively high level. Buoyed by the steady growth

Tier 1 Capital ranking

54th

Total assets ranking

66th

"With strong support from both our domestic and overseas shareholders, our customers, the public and joint efforts by our staff, the Bank achieved remarkable results where respective line of business scaled new heights in 2008, despite the impact of the global financial turmoil on the domestic economy."

in operating results, the Bank is the first major domestic listed bank to declare interim dividends to our shareholders, enabling them to share the success of our Bank.

RISK MANAGEMENT

There is a Chinese adage that the most problematic tribulation of the world are those appear peaceful on the surface underneath which lie uncertainties and mishaps. This aptly describes the current global financial crisis. After years of prosperity, the hidden ills associated with high gearing model finally surfaced in 2008. Worsening global financial crisis led to the demise of long established financial institutions and caused the slowdown in global economic growth. There is also downward pressure on China's economy as a result.

Even though economic and market volatilities can hardly be avoided, the scale of fluctuations in recent months are unprecedented. We learnt that a growth model based on high leverage is unsustainable. This, with the compromise in risk management, will ultimately lead to failure. In contrast, our Bank has always adhered to its long-held philosophy to pursue steady and sustainable growth, which turns out to be farsighted.

Of course, "there are no innocent bystanders in turbulent times" as the folk says. With the globalisation and interdependency between different financial markets across the globe, it is unlikely that any financial institution would be immune from the negative impact of this global financial crisis. Our risk management and internal controls faced severe challenges as the crisis continued to unfold and deepen. However, benefited from our core value of maintaining prudent operation as persistently upheld and comprehensive risk management policies and tools that we built up over the years, we remained least affected. We strengthened the risk control over foreign currency-denominated investments, thus liquidating the investments in debt securities issued by Fannie Mae and Freddie Mac timely and allowing us not only to avoid substantial losses but rather made a small profit. The Bank also disposed of most of its high-risk Lehman Brothers debt securities and made sufficient impairment allowances for overseas debt securities, so that the risks of its overseas investments were effectively managed.

As the financial crisis continues to rage across the planet causing more severe impact on the global economies, there are more uncertain and volatile factors in the international economy. China's economy is entering into an adjustment period. Facing complicated and austere economic environment, the Bank has adopted various measures to enhance its risk management. We have implemented our 2008–2010 Comprehensive Risk Management Plan, so as to formalise responsibilities in risk management among the various business units, improve our risk management techniques and tools, and optimise our risk management process. These unrelenting efforts allow the Bank's impaired loans ratio to decline to 1.92% while provision coverage of impaired loans has increased to 166.10% in 2008. Assets quality remained stable. Our ability to resist risks and capability to grow during different economic times is further enhanced.

CORPORATE SOCIAL RESPONSIBILITIES

The Bank recognises that "opportunity and responsibility are proportional". We faithfully fulfilled our corporate social responsibilities. We believe in the co-existence, the mutual benefits and the joint development of both the Bank and its stakeholders. In the aftermath of the Wenchuan Earthquake in May 2008, the Bank felt deeply for the victims and contributed generously, donating more than RMB80 million and granting more than RMB16 billion of disaster-relief and reconstruction-related loans. In addition, the Bank fulfilled its pledge to continue its "Moving Towards Tomorrow — Bank of Communications Disabled Youth Scholarship Scheme" and cumulatively donated RMB40 million to China Welfare Fund for the Handicapped at the end of 2008 to help improving the quality of life of the disadvantaged.

In addition, the Bank actively participated in various community events, including the biggest events in China. In 2008, the Beijing Olympics provided an excellent opportunity for the Bank to improve its service quality. The Bank fully accomplished its mission to provide Olympics financial services, contributing to the smooth and efficient finance operations during the Beijing Olympics. Moreover, as the sole global commercial bank partner of the World Expo 2010 Shanghai China, the Bank has provided credit facilities of up to RMB17.5 billion for the land development and site construction of the World Expo, enabling the smooth completion of the construction of the Shanghai Expo pavilion.

To strive for a perfect balance between the profit making and social good, the Bank continued to operate its various lines of business in a highly responsible manner in 2008. The Bank was the first among its peers to initiate and implement the "Green Credit" project and the first domestic commercial bank to implement the environmental impact classification of its loan customers and its lines of business. We have stepped up our efforts to support national key development zones, strategic development projects, energy conservation projects, agriculture and rural development projects and small-and-medium enterprises and loans of more than RMB114 billion were granted. These efforts led to fruitful results. We supported the long-term sustainable development of the national economy while diversifying our operating risks and improving our assets quality.

For our outstanding performance, the Bank has been awarded the "Innovest Corporate Responsibility Award" according to the annual domestic commercial banks' competitiveness report released by *The Chinese Banker* magazine in 2008 . This presented us an incentive to continue to fulfill our corporate social responsibilities more diligently and proactively.

CORPORATE REPUTATION

Our market position, brand recognition and corporate image were further boosted by our impressive operating results, prudent business management and harmonious relationship with the community. According to the listing of Top 1000 World Banks in 2008 published by the British magazine *The Banker*, the Bank's ranking by Tier 1 capital and total assets rose from 68th to 54th place and 69th to 66th place, respectively. According to Bloomberg, the Bank was ranked the 10th in terms of market capitalisation among global commercial banks, and this was the first time that we entered in the Top 10 since our Bank was listed. The Bank took the opportunity of its centennial celebrations to further strengthen its image of one with a long and rich history and to promote our results of reform and development. Our brand image was further enhanced by the overwhelming responses from the public. In 2008, the Bank also won more than 100 other awards from various authoritative magazines, including "Most Efficient Bank Award" "Best State-Owned Bank Award" and "Best Corporate Governance Enterprise in China".

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

It is said that if there is a storm on the mountain, more important than the plan are the people you have with you. This demonstrates the huge importance of a competent management team to a modern enterprise. The talents and tremendous efforts of our approximately 80,000 employees have assisted the Bank weather the challenges faced during 2008 to achieve exemplary results.

There were significant changes to the composition of the Bank's Board of Directors in 2008. Mr. Jiang Chaoliang resigned as Chairman of the Board of Directors due to reassignment of work. As a senior banker, Mr. Jiang had a strong knowledge of financial theory, substantial experience in commercial bank management, and excellent professional ethics. During his tenure as Chairman, Mr. Jiang led the Bank to the successful completion of the trilogy of the share reform, being "Reorganisation", "Fund Raising" and

"Listing", and made significant contributions to our business reforms through his exemplary leadership capabilities and strategic foresight. With great reluctance, we saw Mr. Jiang's departure. Nevertheless, I would like to take this opportunity to express my deepest gratitude to Mr. Jiang on behalf of the Bank and its employees. We also express our best wishes for his new position. It is also our desire that he can contribute further to China's financial market reform and development in his new posting.

In addition, Mr. Timothy D. Dattels, Mr. Li Keping and Mr. Gao Shiqing resigned from their positions as Directors due to personal reasons in 2008. Mr. Ji Guoqiang, Mr. Lei Jun and Mr. Qian Hongyi were appointed to the Board as new members. The Bank expresses its deepest gratitude to Mr. Dattels, Mr. Li and Mr. Gao, who had diligently performed their duties, provided valuable opinions and suggestions, and made numerous contributions during their tenure as Directors. Each of Mr. Ji, Mr. Lei and Mr. Qian possesses a wealth of professional experience in the field of financial investments, accounting and auditing. We believe that they will work closely with other Directors of the Board to continue to enhance our corporate governance and further our strategic development, jointly promoting the business growth of our Bank.

In 2008, our senior management team conscientiously and actively explored and developed various lines of business amid drastic market changes in a diligent manner. We will also strive to implement all Board resolutions resolutely and consistently and generate the maximum value for our shareholders. I am honoured to be able to work alongside such a professional and dedicated management team, and I believe our joint efforts will steer us closer to our development goals.

STRATEGY

Sun Tzu once said," it is of paramount importance to have a comprehensive strategy before action." From history, we have seen how large international banks persevered after selecting the right strategy and committing to such strategy in their management for continued success over time. Our Bank, with one hundred years of tradition, now finds itself at the beginning of a new phase of development with an urgent need to further develop its global vision, enhance its strategy map, set out clear goals and select suitable model to progress, rejuvenate and achieve sustainable development in a scientific manner.

Bearing in mind the above understanding, based on our existing goals and our work on strategic transformation, we carried out a comprehensive analysis to further define our strategy of being "a first-class public bank group focused on wealth management services by means of international expansion and by providing comprehensive services". This strategy had taken into consideration the Bank's first-mover advantage in international business and integrated financial services. In addition, this strategy would also ensure continued focus on the Bank's policy on strategic transformation, with emphasis on its wealth management business. The coordination and continuity of the strategy can be ensured, thus providing a clear direction for future development.

To achieve this strategic goal, we will pursue external expansion and internal growth concurrently. In terms of external expansion, we focused on the international expansion and the provision of comprehensive services. We aim to achieve the globalisation of our service network, business structure and operational management expertise, increase our service coverage, and realise synergy effects between different lines of businesses. On the other hand, internal growth focuses on enhancing customer values and we will continue to invest considerable efforts on our wealth management business. This new business model allows us to enhance our core competitiveness through differentiation. We will also strive to bring key areas such as corporate governance, financial indicators, management, service quality level and corporate social responsibilities to those of international standards. In our capacity as a listed bank, we will diligently fulfill our responsibilities as a modern corporate citizen and maximise the interests of our stakeholders, including shareholders, customers, employees and our country. This will be a long-term strategic goal which our Bank, as a whole, will strive towards.

CHALLENGES AND OPPORTUNITIES

The current global financial crisis we are facing has crippled the global economy into its worst situation since the Great Depression of the 1930s. Although the crisis itself does not have a significant direct impact on the Chinese banking industry, the resultant global economic downturn also hurts the Chinese economy which has long been export-driven and largely depends on the foreign direct investments. The Chinese economy is now facing the most challenging times since the beginning of the twenty-first century. Likewise, the Chinese banking industry is also subject to the most severe test since the joint stock reform.

The development of the Bank's various lines of businesses will be made more difficult in the near future because of the economic downturn and the decline of global demand. Profitability growth is also expected to slow down as a result of the combined effects of the weakened loan demands, narrowed interest margins, declining growth in fee-based income and increase in impairment allowances. This may result in a less rapid but more sustainable growth stage. In particular, under the pressures from the global financial crisis and domestic economic downturn, risks, such as credit risk, interest rate risk, foreign exchange risk, liquidity risk and operational risk, may affect or aggravate one another. These can cause reactions that may be systematic or unexpected or that resemble of chain reactions. Thus, these risks, if not dealt with carefully, may trigger a "butterfly effect" to cause massive losses.

Nevertheless, Peter F. Drucker, a leading management guru, once said, "turbulent times present opportunities for those who are able to understand, acknowledge and make use of the changes to internal and external conditions". We must thus be able to seek opportunities while we analyse the difficult conditions we are facing.

On external front, there are no fundamental changes to China's economic growth. The national policies to promote domestic consumption and to stabilise growth have further provided commercial banks with opportunities for further loans growth. Changes to the regulatory policies have also provided us with more rooms for product innovations under less stringent regulatory supervision, and at the same time we will still continue to maintain effective risk control. The crisis has also accelerated the rebalancing of portfolio and asset allocation, leading to the rapid growth in new customers and new sectors and creating a favourable environment for commercial banks to explore new markets, exploit new driving forces for revenue, and develop diversified operation for enhanced risk control.

In terms of the development of new businesses, the volatile economy has caused retail customers to readjust their personal assets structure. In addition, drastic fluctuations in exchange rates and commodity prices have also increased the demand for risk prevention products by multinational corporations. These presented opportunities and potentials for the Bank to develop its wealth management business. Developments in the debt securities and foreign exchange markets are also beneficial to banks developing underwriting business of debt securities, financial consultancy and other investment banking-related businesses. In addition, this can further enhance our treasury business with the aim of increasing rate of returns.

In addition, we also noted that foreign banks were affected to varying extents by the global financial crisis. Again, this provided opportunities for us to further develop our international network through mergers and acquisitions. Moreover, as a response to the crisis, cooperation between commercial banks and non-bank institutions such as fund management companies, trust companies and securities companies are expected to be further strengthened. All these provided us with new opportunities to implement our strategy of comprehensive operation to develop a full range of services and to promote cross-selling.

PROSPECTS

History has shown that every major financial crisis will bring about technical and system innovations and new global financial and trading order. There is no exception this time. As such, in order to deal with the challenges and to capitalise on opportunities, the Bank will proactively respond as follows:

- We will strengthen our strategic management and steadfastly implement our strategy. In addition, we will invest more resources in strategic areas, implement various measures strictly and put in place a post-implementation assessment mechanism to ensure that we are moving steadily towards globalisation and comprehensive operation in accordance with our strategic plan. Profitability and core competitiveness of our wealth management business will need to be enhanced continuously, so as to give us a strong position in the new economic cycle.

- We will forge ahead the development of our various lines of business, so as to achieve first-mover advantage and to out-perform the market. We will capitalise on the national policy to promote domestic consumption and maintain economic growth by strengthening our marketing efforts, focusing on critical sectors and major customers and improving our financial services to small-and-medium enterprises and rural sector. This will result in a rapid development of the business as a whole and a sustainable growth based on the existing economies of scale.

- We will continue to enhance our internal management and to promote the transformation and innovation of processes and systems. We will also accelerate the construction of "Process Bank" and optimise our business process. This will further improve the productivity of the front office, promote the cost reduction and enhance the operating efficiency. We will also enhance our product innovation system, performance assessment mechanism and incentive scheme. In addition, brand management will also be strengthened so as to enhance the Bank's image and reputation.

- We will proactively cope with the global financial crisis by strengthening our comprehensive risk management so as to enhance our ability to manage and resist risks and our capability to develop at all stages of the economic cycles. Moreover, we will continue to improve our risk management framework and mechanism in accordance with the requirements of the "Bank of Communications 2008–2010 Comprehensive Risk Management Plan". Leveraging on the fund raising opportunities available in the market, we seek to maintain appropriate capital adequacy, liquidity and leverage ratios, while making sufficient impairment allowances, so as to consolidate our foundation and safeguard against risks. We will closely monitor, prevent and mitigate the various risks we may face.

We have come a long way together over these years and we shall advance hand in hand in the journey ahead! As a state-owned listed commercial bank with a century-old established brand name, all of us in the Bank reckon our responsibilities and mission. Let us work together to achieve more stellar results and to bring greater glory!

Chairman

Hu Huaibang

President's Statement

In 2008, we celebrated our centennial anniversary and our country's successful hosting of the Beijing Olympics. At the same time, we actively participated in overcoming natural disasters and appropriately responded to both the global financial crisis and the current economic downturn. With the support of our shareholders and the general public and under the leadership of our Board of Directors, senior management of the Bank earnestly adhered to the spirit of the national macro-control policies, fully implemented the decisions made by our Board of Directors, continued with our long-standing philosophy of prudent management, actively responded to the challenges arose from the financial crisis and economic downturn, continued to strengthen risk management and internal control and vigorously promoted the transformation of our business development model and realignment of our business structure. As a result, we achieved sustainable and steady growth in our various lines of business and our key financial indicators have outperformed the industry average.

As at 31 December 2008, the Group's total assets reached RMB2,682.947 billion, an increase of 27.13% when compared to the beginning of the year. Customer deposits totalled RMB1,865.815 billion, representing an increase of 19.94% and loans to customers was RMB1,328.590 billion, representing an increase of 20.29%. Net profit for the year reached RMB28.393 billion, an increase of 40.05% when compared to the previous year. Cost to income ratio was 39.94%, a drop of 0.35 percentage point when compared to the previous year.

Asset

↑27.13%

Net Profit

↑40.05%

"We strongly believe that by relying on our philosophy of prudent management, our high quality of assets, our diversified customer base, the continuous enhancement of our management and the close cooperation with our strategic investor, HSBC, the Bank will continue to follow the direction of prudent management and scientific development to better support China's economy and to repay our shareholders and the society."

Looking back at 2008, the Bank has weathered the challenges with well-defined operations management strategies and effective policies, and achieved outstanding results:

Maintained sustainable and steady development while responding to the challenges arose from the volatile financial market and sharp economic downturn with better situation analysis and timely realignment of business strategies.

With the impact of sub-prime crisis in the United States evolving into a global financial crisis, we set up a special task force and implemented strategic policies to facilitate effective decision making. These included increased research and analysis of market trends and closer supervision on our foreign currency assets exposures. We managed to reduce our exposure in high risk bonds on a timely basis and straightened out our risk management on foreign currency investment and our exposure on various potentially high risk business activities, thereby effectively managing risks and minimising losses. We closely monitored the trends of economic development and macro-control policies. Following the implementation of a series of national policies to "sustain growth, increase domestic demand, and restructure", the Bank actively responded by prudently accelerating loan disbursements and strengthening our specialised financial services. Loan disbursements to critical sectors such as key national infrastructural projects, small-and-medium enterprises and agricultural sector noticeably accelerated. The proportion of loans to electricity, transportation and machinery increased by 0.99, 0.20 and 0.27 percentage point, respectively, from the beginning of 2008. Agricultural-related loans increased by 17.7% from the beginning of the year, and the growth in "Zhan Ye Tong" loans was 25 percentage points higher than the average loan growth of the Bank.

Further improved market position by focusing on our strategic objectives to lay emphasis on our wealth management operations and to intensify business expansion.

We strengthened the management of our customer base and took advantage of our centennial anniversary as the opportunity to reinforce the overall sales and marketing plan by focusing on our key products such as "Win To Wealth", "OTO Fortune" and "BOCOM Fortune", evidencing our focus on wealth management business. In respect of corporate banking business, we achieved breakthrough in our efforts to promote our "Win To Wealth" brand and rapid development in our businesses such as our investment banking division, "Win To Accounts", "Win To Supply Chain" and corporate wealth management. In respect of personal banking business, we further optimised the individual customer stratification system. We rolled out personal banking services, broadened the scope of our services provided under "OTO Fortune" and BOCOM Fortune", tested and established express banking centres, thereby further increasing the number and proportion of and contribution by mid and upper-tier customers. We have been awarded the "Best Domestic Bank in China on Cash Management 2008" and "China's Best Bank for Private Wealth Management" by *Euromoney*. We strongly promoted business model transformation. Accordingly, we established and improved our performance appraisal system which combines both comprehensive and specific assessments, increased our rewards to key strategic and revenue-generating business such as bank card business, fund custodian services, pension fund services and e-banking business, which had effectively driven the development of such businesses. For example, the cumulative number of credit cards issued exceeded 10 million and the various performance indicators of our card business were leading in the industry; the market share for our fund custodian services increased by 1.71 percentage points to 11.35% when compared to the beginning of the year; gained new pension fund business in more than ten large or medium-sized cities, including Shanghai and Hangzhou; and realised substantial growth in the number of new subscribers for and in the volume of our e-banking services. All these laid a solid foundation for our future development. We gradually progressed towards a comprehensive and globalised operation. As part of our accomplishment in exploring rural financial services, we initiated the establishment of Dayi Bocom Xingmin Rural Bank. At the same time, we vigorously promoted coordinated operation between the Head Office and the branches or subsidiaries, between each of the subsidiaries, and between domestic and international institutions, through which subsidiaries continued to realise rapid growth and overseas branches maintained stable development. Efficient operations and organisation continued to enable the Bank to outperform industry average in terms of the rate of development, thereby further improving our market position. For instance, our market share of RMB deposits increased by 0.09 percentage point when compared to the previous year, of which the market share of corporate deposits increased by 0.35 percentage point. In addition, our market share of RMB-denominated loans increased by 0.24 percentage point when compared to the previous year, of which the market share of personal consumer loans increased by 0.25 percentage point.

Adapted to changes in the operating environment and continued to strengthen micro management and foundation development, so as to enhance operating efficiency.

We accelerated the establishment of a "Process Bank". For instance, our operations in Xianyang branch were used as a pilot for the transformation of operating system. In Xiangfan and Nanyang branch, we have started the pilot project to reform the business department and at the same time speeded up the centralisation of middle and back office operations. "Hua Zhong Financial Service Center" was established to implement centralised processing of documents and invoices. We also completed the proposal to centralise retail credit. As a result, we achieved our goal in improving operating efficiency and strengthening risks control. We took advantage of our Olympics financial services as the opportunity to strengthen our distribution network management and staff training, accelerated hardware investment and technology upgrade, and rolled out innovative services such as online customer services, private banking counters and English service counters. Accordingly, our service quality and capability continued to improve. We also continuously strived to improve the management of our service outlets and completed renaming our provincial branches, thereby further streamlining the branch management system. We established six new branches in Jiangmen and other areas, which further enhanced our organisation network. We also explored on the distribution network development model, formalised the selection criteria for new service outlet and strengthened the modification of the service capacity of the outlet, thereby further enhancing the operating efficiency of the outlets. By strengthening our management on self-service machines and improving our online banking system, we further capitalised the capability of electronic distribution channels. We continued to strengthen our pricing mechanism, developed a comprehensive pricing management platform, enhanced the management of interest rate analysis, actively developed distinctive value-added services, attributing to the advancement in pricing capability. The net interest spread and net interest margin for 2008 were 2.88% and 3.02%, respectively, representing an increase of 10 and 17 basis points from the previous year. We maximised our information technology capabilities for operations support and become the first major domestic bank to successfully implement the switch of our operations to the Disaster Recovery Center in the same city. We also completed the operating system migration from Hong Kong branch to Head Office and passed the ISO27001 international certification on information security. We initiated the development of "2 places 3 centers" disaster recovery structure and prepared for the integration of domestic and overseas data centers. As a result, the pace of system optimisation and product development continued to accelerate and the integration of information technology and operations management was further enhanced.

Strengthened preventive and control measures amid increased pressure on risk management to stabilise our asset quality.

We have formulated the 2008–2010 Comprehensive Risk Management Plan with the objectives and priorities clearly stated. We have also activated the integration plan for the Group's risk management system and fully implemented a consolidated management approach. We have developed the implementation plan and the target monitoring measures for the New Basel Capital Accord. We also ran a number of sensitivity tests based on various key risk scenarios such as changes in housing price indices, interest rates and exchange rates as well as the slowdown in economic growth rate. We also developed anti-money laundering system, centralised collateral management system, alert system for significant customer risk and information sharing platform between the Bank and tax authorities, thereby further enhancing our risk prevention technology. In addition, we have standardised and strengthened our post-lending management and risk monitoring procedures, established a monthly reporting mechanism focusing high risk customers, strengthened the follow-up analysis on unexpected incidents and escalated our collection and realisation efforts. At the same time, we increased our auditing efforts over key business process and key personnel and initiated a special governance program for identifying illegal dealings between our employees and customers. As a result, we further enhanced our ability to identify risks and to resolve risk-related issues, and effectively assured operation security and stability of our asset quality. Despite the impact of the financial crisis and the Sichuan earthquake, impaired loans ratio of the Bank dropped by 0.13 percentage point when compared to the beginning of year.

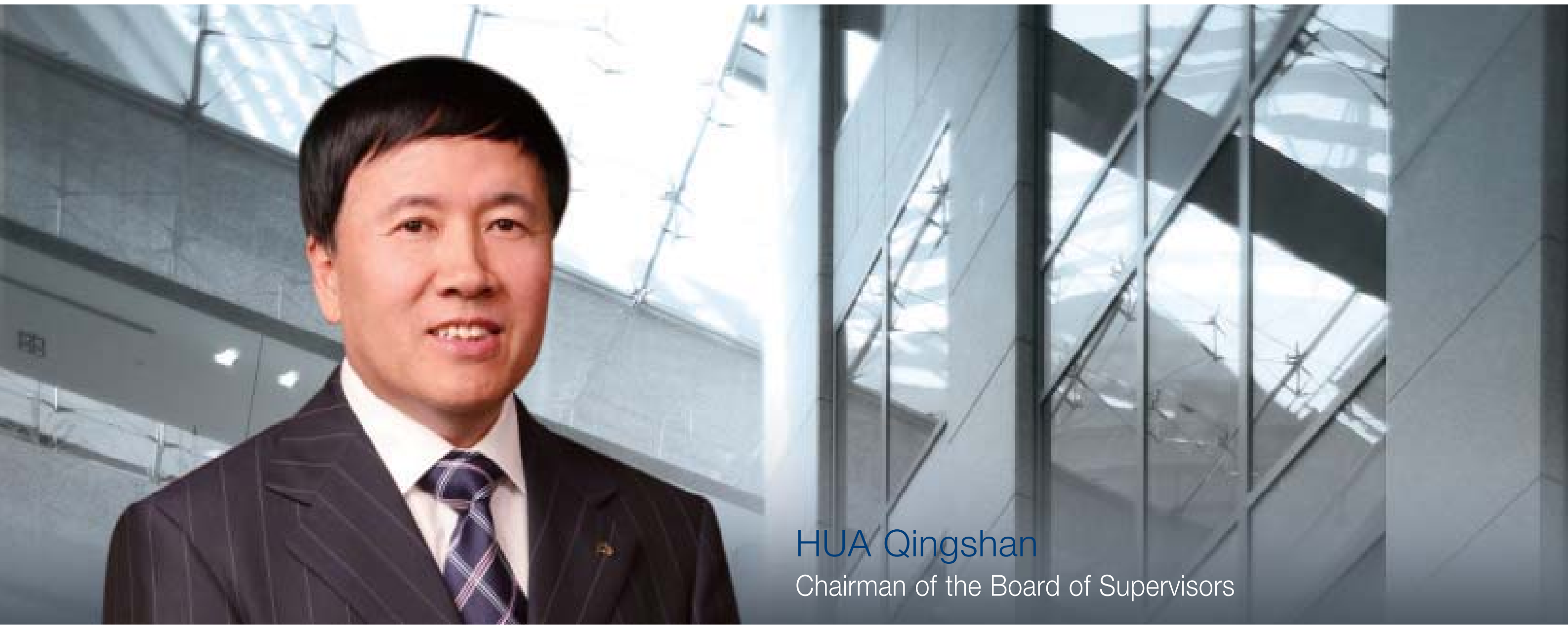
In conclusion, the Bank has achieved satisfactory results in 2008, a year which marked the 30th anniversary of China's market reform and our centennial anniversary. Our remarkable performance was attributable from the stable economic growth of our country and the proper guidance from the national government leadership, the strong trust and support from our shareholders and the public, as well as the dedication by our employees. Our strategic partner, HSBC, has also given us continuous support and assistance. On behalf of senior management, I would like to express our heartfelt gratitude to all member of the public and to all our employees.

In 2008, the volatile global economy faced drastic changes, which had an unforgettable and profound impact on us. Moving into 2009, when the global financial crisis is still looming, the economy of China shall experienced a further downturn and the quality of the Bank's business expansion and development and management capability is experiencing unprecedented challenges. At the same time, we also notice the realignment of the international division of will bring new opportunities to China's economic development. The impact of our national policies to "sustain growth, increase domestic demand, and restructure" become apparent. We believe that once the worst time of this global financial crisis is over, the economy of China will be growing vibrantly, and we can expect a favourable external environment for the development of China's banking industry. We strongly believe that by relying on our philosophy of prudent management, our high quality of assets, our diversified customer base, the continuous enhancement of our management and the close cooperation with our strategic investor, HSBC, the Bank will continue to follow the direction of prudent management and scientific development to better support China's economy and to repay our shareholders and the society.

President

Li Jun

Chairman of the Board of Supervisors



HUA Qingshan
Chairman of the Board of Supervisors

In 2008, in accordance with the requirements of the Company Law and the Articles of Association, the Board of Supervisors monitored the Board of Directors' execution of the resolutions approved at Shareholders' General Meetings and decisions made within the Board of Directors' scope of power. The Board of Supervisors also monitored the senior management's implementation of resolutions approved at Shareholders' General Meetings and Board of Directors' meetings, and the business activities that were carried out within their scope of power. At the same time, the Board of Supervisors also continuously intensified its supervision on the performance of duties by the Board of Directors and senior management while earnestly taking its responsibility to investigate the Bank's financial condition, internal control and risk management to safeguard the interests of the Bank and its shareholders.


交通银行
BANK OF COMMUNICATIONS

Aimed at maximizing the fortune of its customers, ‘Win-to Fortune’ provides specialized and professional corporate financial services to corporate customers. Numerous financial services for businesses like merchandising, production, sales and investment are offered, which include corporate settlement, cash management, financing, trading services, corporate wealth management, financial advice, investment banking, corporate annuity, offshore banking, internet banking etc.

蕴通财富

WIN TO FORTUNE

财 富 广 蕴　通 达 天 下

Management Discussion and Analysis

In 2008, in addition to the financial tsunami and the recession in global economies triggered by the sub-prime crisis, the Chinese economy also faced daunting challenges, which include declining exports, rising labour costs and revaluation of the RMB and unprecedented large-scale natural disasters. Under the central government's effective macro-control policies and regulatory guidance, the Group continued with its long-standing philosophy of prudent management. It actively responded to the changing market environment and various risk factors. In addition, the Group also continued to strengthen its risk management and internal control while forging ahead with the transformation of its operation development model and realignment of its business structures. These encouraged the sustained and steady development of its various lines of business.

1 OPERATION OVERVIEW

The Group's total assets and total liabilities reached RMB2,682.947 billion and RMB2,532.852 billion while shareholder's equity reached RMB149.662 billion as at 31 December 2008, an increase of 27.13%, 28.11% and 12.61%, respectively as compared to the beginning of the year. Net profit for the year was RMB28.393 billion, an increase of 40.05% when compared to the previous year while earnings per share were RMB0.58, an increase of 38.10% when compared to the previous year.

2 BUSINESS REVIEW

Significant improvements in operating results due to practical response to complex situations

The Group responded practically to the complex and volatile operating environment in 2008, where it capitalised on opportunities presented while effectively mitigating risks to maintain stable business growth. During the first three quarters, the Group controlled loan disbursements under the tight domestic monetary policy and readjusted the composition of its credit portfolio. In the last two months, the Group accelerated its pace of loan disbursements and increased its credit support for critical sectors such as key national infrastructural projects, small-and-medium enterprises, agricultural sector and disaster-reconstruction. These efforts were made in response to the requirements of the macro-control policy to boost domestic demand and promote economic growth. Given the prudent composition of the Group's assets where its exposure to industries that were significantly affected by the financial crisis was relatively small, the Group was able to minimise the impact of the current global financial crisis on its business. On the other hand, the Group took effective and decisive measures promptly to reduce its exposure to high-risk debt securities since early July, thus further reducing the direct impact of the financial crisis on its business.

As at 31 December 2008, loans to customers (before allowances, and similarly hereinafter unless otherwise stated) increased by 20.29% from the beginning of the year to RMB1,328.590 billion. This included domestic RMB loans which increased by RMB218.747 billion from the beginning of the year, representing an increase of 22.98%, and its market share also increased by 0.24 percentage point from the beginning of the year. Customer deposits increased by 19.94% from the beginning of the year to RMB1,865.815 billion. The Group issued 7.47 million new debit cards and 4.72 million credit cards in the domestic market during the year. Cumulative number of credit cards issued has exceeded 10 million. Moreover, sales of wealth management products also increased significantly during the year, of which, sales of "De Li Bao" increased more than 10 folds while sales of commission insurance products also increased by more than 5 times. The Bank rose by one position in the capital market for RMB-denominated transactions volume and rose by three positions for foreign-currency denominated transactions volume. Thus, the Group continued to maintain its status as one of the most active banks in the market.

The Group achieved relatively strong growth in net profit due to the sound development of its various lines of business. As at 31 December 2008, the Group's operating profit before tax was RMB35.719 billion, an increase of 14.80% when compared to the previous year. Net profit was RMB28.393 billion, an increase of 40.05% when compared to the previous year. Return on average assets was 1.19%, an increase of 0.13 percentage point when compared to the previous year.

Return on average shareholders' equity was 20.10%, an increase of 1.94 percentage points when compared to the previous year.

Significant increase in interest margins due to continued realignment of business structures

In 2008, the Group focused on the realignment of its business structure and diligently improved its business development and rate of returns.

Major adjustments to Group's corporate banking business structure. The Group conscientiously supported the macro-control policy and national policies relating to different industries, and strengthened its management in loan disbursement. This, in turn, resulted in increases in the proportion of loans to electricity, transportation and other energy-related industries. The Group also strengthened its rural financial service and agricultural-related loans increased by 17.7% from the beginning of the year. The Group continued to introduce innovative products and services to small enterprises, which, for example, resulted in strong growth in "Zhan Ye Tong" loans. Meanwhile, the Group continued to implement its differentiated policies for enterprises in different sectors. For instance, loans to industries with over-capacity or those categorised as "high-polluting, energy-intensive, resources-dependent" and surplus production capacity sectors were reduced by RMB3.81 billion. It had better control over the proportion of loans to textile and real estate industries. As at 31 December 2008, customers of domestic corporate loans were classified into 10 classes, with the proportion of the better quality class 1–5 customers at approximately 80.50%, an increase of 6.13 percentage points from the beginning of the year.

Enhancement to development capacity of retail business. In addition to improving individual customer stratification system, the Group also introduced its private banking services on a pilot basis. In addition, the Group also enhanced existing wealth management products such as "OTO Fortune" and "BOCOM Fortune". With a new wealth management platform, it effectively upgraded the Group's sales and service capacity. In 2008, new individual deposits for the Group increased by RMB134.118 billion, an increase of 24.77% from the beginning of the year. New individual deposits also made up 36.21% of total customer deposits, an increase of 1.40 percentage points from the beginning of the year. The number and proportion of upper and mid-tier customers increased by 12.18% from the beginning of the year, and 2.47 percentage points, respectively. The newly increased assets from the upper and mid-tier customers accounted for 90.05% of all newly increased individual assets managed by the Group, thus making it a dominant driver of growth.

Improvement in efficiency of treasury operations. The types and durations of investments were adjusted and optimised. Among the investment in RMB-denominated debt securities, the proportion of high yield debt securities such as medium-term notes and short-term financing bonds increased by 2.48 and 0.95 percentage points, respectively. The proportion of debt securities investments with a maturity of 5–10 years also increased by 4.1 percentage points. The establishment of the Financial Markets Division enabled the Group to integrate the management of its domestic and foreign currency operations, thereby resulting in a rapid development in the treasury operations. Interest income realised from investment securities during the year reached RMB22.430 billion, an increase of 44.78% compared to last year. Return on investment securities reached 3.99%, placing the Group in a leading position in the industry.

As a result of continued realignment of business structures, the Group's net interest income recorded a significant growth. The Group's net interest income amounted to RMB65.862 billion in 2008, an increase of 22.10% as compared to the previous year. Net interest spread and net interest margin reached 2.88% and 3.02%, respectively, which increased by 10 and 17 basis points as compared to last year. This shows a significant increase in the interest spread.

Continued growth in fee income due to service upgrading and innovative products

Facing the downturn in the capital markets in 2008, the Group focused on expanding its fee-based business and endeavored to increase its net fee and commission income, thereby improving its revenue structure.

The Group has further enhanced the level of services and expansion so that traditional fee-based services such as bank cards, custodian, and international settlement services further developed. Income from bank cards and custodian business increased by 45.66% and 25.85%, respectively. The proportion of income from bank cards and custodian business to total fee and commission income increased from 24.46% and 6.43%, respectively, in 2007 to 29.03% and 6.59%, respectively, in 2008. The total transaction volume of international settlement reached US$200 billion, the

increase in which was 10 percentage points higher than the growth of the imports and exports of the foreign trade of the country in the same period.

The Group has increased the innovations in products and services so that the growth of new fee-based business products accelerated. Revenue from guarantee and commitment service, financial consultancy and insurance agency service experienced a faster growth. Fees from guarantee and commitment business increased by 1.29 times over last year, while revenue from consultancy service increased by 3.43 times over last year. It ranked among the top 3 in terms of market share of the underwriting business of short-term financing bonds and medium-term notes.

Through the efforts mentioned above, the Group's net fee and commission income reached RMB8.837 billion for 2008, an increase of 24.55% as compared to last year. The net fee and commission income accounted for 11.44% of net operating income, representing an increase of 0.14 percentage points from last year.

Accelerated promotion of its strategy and synergies within Group

In 2008, due to changes in market environment and operating conditions, the Group further reinforced its strategic objective of being "a first-class public bank group focused on wealth management services by means of international expansion and by providing comprehensive services".

Overseas branches responded actively to the impact from the financial crisis where overall business growth remained steady. Asset size reached US$21.911 billion, an increase of 26.19% compared to the beginning of the year. Non-performing loan ratio, however, still maintained at a relatively low level. The subsidiaries maintained a good growth momentum where operational synergies were gradually shown and the sharing of customer information, resources and cross-functional linkages were enhanced. As at 31 December 2008, the total assets of all subsidiaries reached RMB14.078 billion, and contributed RMB215 million to the Group's profits.

The Group's non-banking license business has been extended to areas such as securities, funds, insurance, trustee and leasing. With seven overseas branches and a representative office, the Group has formed a global service network with "Asia as the core business and Europe and United States as its focus of expansion". With this integrated and globalised organisational structure taking shape, synergies from cross-market and globalisation were expected to be further strengthened.

Significant increase in operating efficiency due to infrastructure improvement

The Group continued to improve its business processes, operation efficiency and service quality, as well as to enhance its IT system and upgrade its service outlets. In 2008, the Group implemented transformation of operation system in its newly established provincial branches and the transformation has run smoothly. "Hua Zhong Financial Service Centre" was established to implement the centralised processing of documents and invoices. Six provincial sub-branches have been set up in places including Jiangmen, and a total of 351 OTO retail outlets were also established. Six express banking centres with self-service card issuing machines were built in five branches in a pilot program. 3,035 self-service machines were newly installed, representing an increase of 47% from last year. The rate of calls answered by staff in the customer service centre reached 95%, thus placing the Bank in the leading position in the industry. More than 99% of complaints were resolved in a timely manner. The Bank was the first major bank in the country to successfully implement the switch of operations to the Disaster Recovery Centre in the same city. Wuhan remote data backup centre came online during the year. The initial stage of a "2 places 3 centres" disaster recovery structure was completed. In line with the Group's strategy of globalisation and comprehensive operation, the Group has succeeded in the migration of Hong Kong branch's application system to the head office, laying the foundation for the Group's integration of domestic and overseas data centres. By increasing the pace of system optimisation and product developments and stabilising the operations of the system, the integration between IT and operations management was further enhanced.

Benefiting from the improvement in the businesses management and the continuous enhancement of various cost control measures, the Group has further improved on its operating efficiency. In 2008, the Group's operating expenses amounted to RMB30.867 billion, increased by 22.03% from last year. The increase in the operating expenses was lower than that of the net operating income. The Group's cost to income ratio stood at 39.94%, representing a decrease of 0.35 percentage point as compared to last year. At the same time, the Group's net profit per employee and per outlet reached RMB389,400 and RMB10,824,600, respectively, representing an increase of 23.82% and 39.83% from last year, showing a significant improvement in the operating efficiency.

Continue to strengthen risk management, asset quality remained stable

In 2008, the Group continued to enhance its comprehensive risk management system. The Group formulated a brand new 3-year comprehensive risk management plan, and activated the integration plan for the Group's comprehensive risk management system. The management structure was further improved and Risk Management Department was set up based on the original Risk Monitoring Department, with its role and functions of risk management being further expanded. The management on credit risk, market risk, liquidity risk and operational risk was also strengthened. The Group has implemented a consolidated management approach by including the subsidiaries in the comprehensive risk management system. The Bank's work in developing the implementation plan and the target administrative measures for New Basel Capital Accord, places it in a leading position in the industry. Adhering to effective risk management measures in a timely manner reduced the negative impact brought by the global financial crisis upon the Group. The Group has timely reduced the exposure of high risk bonds and made sufficient provisions against foreign currency-denominated bonds showing signs of impairment. The Group also conducted a comprehensive risk analysis on high risk industries including export-oriented industry, and reduced its loan disbursements or requested for additional security based on such analysis. As at 31 December 2008, the impaired loans ratio reduced from 2.05% at the beginning of the year by 0.13

percentage points to arrive at 1.92%; the provision coverage of impaired loans reached 166.10%, an increase of 23.60 percentage points as compared to the beginning of the year[Note].

Actively fulfilling its social responsibility and significantly improving its corporate image

The Group placed great importance in fulfilling its corporate social responsibilities and pursued a perfect balance between economic and social benefits, which it considered as an important component of its corporate development strategy. The Group was the first in the industry to implement "Green Credit" project. It categorised its credit customers by the industries they are engaged in accordance with the environmental impact caused by these customers and industries. The coverage of credit customers and balances that are environmental-friendly reached 99%. In 2008, the Group showed a combined effort to react to combat natural disasters and actively supported disaster relief and reconstruction. Cumulative loans for earthquake relief, disaster relief and reconstruction amounted to RMB16.16 billion. After the successful provision of financial services completion to the Olympics, the Group was awarded more than 100 awards including "Most Efficient Bank Award", "Best State-Owned Bank Award", "Best Corporate Governance Enterprise in China", "Best Social Responsible Bank" from various authoritative media.

The Group's brand reputation continued to be enhanced. The product "Win To Fortune" integrated all corporate banking products, thus compiling a series of brand names with "intelligent financial services" as the core brand and "9 major services areas + 28 services solutions" as major service contents of the brands. The cash management service brand under this series was awarded the "Best Domestic Bank in China on Cash Management 2008" by *Euromoney*. "OTO Fortune" and "BOCOM Fortune" and other private banking service brands were awarded the "China's Best Bank for Private Wealth Management" by *Euromoney* and voted the "China Best Private Bank" in the 2008 China Private Wealth Management survey. In July 2008, the Group successfully issued RMB-denominated debt securities in an aggregate amount of RMB3 billion in Hong Kong. The bonds were well received by the Hong Kong investors and were 6.8 times over-subscribed. The Group's reputation in the international market was further enhanced.

Note: The provision coverage of impaired loans (after deducting statutory general reserves after tax) reached 116.83%, representing an increase of 21.20 percentage points from the beginning of the year.

3 ANALYSIS ON MAJOR INCOME STATEMENT ITEMS

3.1 Operating profit before tax

In 2008, the Group's operating profit before tax was RMB35.719 billion, representing an increase of RMB4.605 billion or 14.80% as compared to last year. Operating profit before tax was derived mainly from net interest income and net fee and commission income.

The table below shows the significant items which make up the Group's operating profit before tax for the year indicated:

		(in millions of RMB)
	2008	2007
Net interest income	**65,862**	53,943
Net fee and commission income	**8,837**	7,095
Impairment losses on loans and advances	**(10,690)**	(6,380)
Operating profit before tax	**35,719**	31,114

3.2 Net interest income

In 2008, the Group's net interest income reached RMB65.862 billion, representing an increase of 22.10% as compared to last year. Net interest income is the main component of the Group's operating income, accounting for 85.23% of the Group's net operating income.

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

(in millions of RMB unless otherwise stated)

	For the 12 months ended 31 December 2008			For the 12 months ended 31 December 2007		
	Average balance [1]	**Interest income/ (expenses)**	**Average yield/ (cost) ratio**	Average balance [1]	Interest income/ (expenses)	Average yield/ (cost) ratio
ASSETS						
Cash and balances with central banks	**296,003**	**4,985**	**1.68%**	230,754	3,438	1.49%
Due from other banks and financial institutions	**192,410**	**6,907**	**3.59%**	170,501	5,971	3.50%
Loans and advances to customers	**1,167,624**	**82,784**	**7.09%**	1,033,547	65,417	6.33%
Of which:						
Corporate loans	**942,533**	**67,120**	**7.12%**	833,761	53,171	6.38%
Individual loans	**179,862**	**13,083**	**7.27%**	143,856	9,046	6.29%
Discounted bills	**45,229**	**2,581**	**5.71%**	55,930	3,200	5.72%
Investment securities and others	**561,927**	**22,430**	**3.99%**	468,799	15,493	3.30%
Total interest-earning assets	**2,181,119 [4]**	**115,396 [4]**	**5.29%**	1,890,040 [4]	89,658 [4]	4.74%
Total non-interest earning assets	**136,485**			89,867		
TOTAL ASSETS	**2,317,604 [4]**			1,979,907 [4]		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Due to customers	**1,640,628**	**37,538**	**2.29%**	1,481,607	25,993	1.75%
Of which:						
Corporate deposits	**1,093,191**	**24,059**	**2.20%**	1,044,343	16,382	1.57%
Individual deposits	**547,437**	**13,479**	**2.46%**	437,264	9,611	2.20%
Due to other banks and financial institutions	**404,398**	**11,817**	**2.92%**	319,868	8,690	2.72%
Debts issued and others	**43,654**	**1,889**	**4.33%**	37,966	1,693	4.46%
Total interest-bearing liabilities	**2,051,835 [4]**	**49,534 [4]**	**2.41%**	1,825,880 [4]	35,715 [4]	1.96%
Shareholders' equity and non-interest bearing liabilities	**265,769**			154,027		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,317,604 [4]**			1,979,907 [4]		
Net interest income		**65,862**			53,943	
Net interest spread[2]			**2.88% [4]**			2.78% [4]
Net interest margin[3]			**3.02% [4]**			2.85% [4]
Net interest spread[2]			**2.97% [5]**			2.85% [5]
Net interest margin[3]			**3.11% [5]**			2.92% [5]

Notes:

1. Daily average balance calculated under the CAS and adjusted in accordance with IFRS.
2. This ratio represents the difference between the average yield on total average interest-earning assets and the average cost of total average interest-bearing liabilities.
3. This ratio represent the net interest income to total average interest-earning assets.
4. This eliminates the impact of wealth management products.
5. This eliminates the impact of wealth management products and taking into account the tax exemption on the interest income from investments in Government bonds.

In 2008, the Group's net interest spread and net interest margin were 2.88% and 3.02%, respectively, representing an increase of 10 and 17 basis points from last year. The main reasons for the increase in the net interest spread and net interest margin were:

1. In 2007, due to the lagged effect from the 6 times increase in the interest rate by the People's Bank of China ("PBOC") and the continued improvement and optimisation of the quality of the Group's customers and assets structure, the average return on the Group's customer loans significantly increased to 7.09% from 6.33% in last year. However, as a result of the substantial reduction in the interest rate in the fourth quarter, return on loans began to decline.

2. The increase in return from the RMB bond markets and the continued optimisation of the Group's investment portfolio resulted in an increase in the Group's return on securities investment from 3.30% in the previous year to 3.99%.

3. Re-pricing of deposits and capital market volatility caused a trend of backflow of deposits and fixed deposits, thereby resulting in an increase in average cost of deposits from 1.75% in last year to 2.29%.

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

(in millions of RMB)

	Comparison between 2008 and 2007 Increase/(decrease) due to			Comparison between 2007 and 2006 Increase/(decrease) due to		
	Volume	**Interest rate**	**Net increase/ (decrease)**	Volume	Interest rate	Net increase/ (decrease)
Interest-earning assets						
Cash and balances with central banks	**972**	**575**	**1,547**	1,212	130	1,342
Due from other banks and financial institutions	**767**	**169**	**936**	970	138	1,108
Loans and advances to customers	**8,487**	**8,880**	**17,367**	12,267	6,551	18,818
Investment securities and others	**3,073**	**3,864**	**6,937**	3,645	863	4,508
Changes in interest income	**13,299**	**13,488**	**26,787**	18,094	7,682	25,776
Interest-bearing liabilities						
Due to customers	**2,783**	**8,762**	**11,545**	3,953	2,725	6,678
Due to other banks and financial institutions	**2,299**	**828**	**3,127**	4,439	(600)	3,839
Debts issued and others	**254**	**(58)**	**196**	978	(60)	918
Changes in interest expenses	**5,336**	**9,532**	**14,868**	9,370	2,065	11,435
Changes in net interest income	**7,963**	**3,956**	**11,919**	8,724	5,617	14,341

In 2008, the Group's net interest income increased by RMB11.919 billion from the previous year, of which, movements in the average balances of various assets and liabilities resulted in an increase in net interest income of RMB7.963 billion and movements in average yield and average cost ratio resulted in an increase in net interest income of RMB3.956 billion. The scale and interest rate factors contributed to the increase in net interest income of 66.81% and 33.19%, respectively.

3.3 Net fee and commission income

Net fee and commission income is a major component of the Group's net operating income. In 2008, the Group overcame the adverse effects of the capital markets by vigorously implementing the strategy of diversification of income structure and expediting products and services innovation, thus resulting in a relatively fast growth of the fee-based business. In 2008, the Group's net fee and commissions income was RMB8.837 billion, representing an increase of 24.55% or RMB1.742 billion from last year, and accounted for 11.44% of the net operating income, representing an increase of 0.14 percentage point as compared to the previous year. New revenue streams such as credit cards, consultancy, and wealth management services are the main driving forces for the growth of the fee-based business.

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

		(in millions of RMB)
	2008	2007
Settlement and agent service commission income	**2,045**	1,744
Bank card annual fee and commission income	**2,938**	2,017
Guarantee and commitment commission income	**912**	399
Custodian commission income	**667**	530
Fund sales commission income	**853**	2,191
Fund management commission income	**590**	614
Financial consultancy commission income	**1,081**	244
Other commission income	**1,035**	506
Total fee and commission income	**10,121**	8,245
Less: Fee and commission expenses	**(1,284)**	(1,150)
Net fee and commission income	**8,837**	7,095

3.4 Other operating expenses

The Group expedited the building of the "Process Bank", thereby enhancing its business process and operating efficiency. In 2008, other operating expenses amounted to RMB30.867 billion, increased by 22.03% or RMB5.572 billion as compared to last year. Cost to income ratio was 39.94%, decreased by 0.35 percentage point as compared to the previous year. Affected by the financial crisis, the Group made substantial provision for impairment on bonds denominated in foreign currencies, thus resulting in a corresponding increase in costs. Without taking into account such provision, the Group's cost to income ratio dropped by 2.01 percentage points from last year to 38.28% in 2008.

3.5 Impairment losses on loans and advances

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

In 2008, the Group's impairment losses on loans and advances were RMB10.690 billion, representing an increase of RMB4.310 billion from last year. The increase was due to: (i) Considering uncertainties in the domestic and international economy in the future, the Group increased the expected loss on unrecognised risks appropriately. In addition, the rapid growth in the scale of loans also resulted in an increase in the collectively assessed provision by RMB3.839 billion from the previous year to RMB5.855 billion. Such provision includes a special provision of RMB2.012 billion for the financial crisis; (ii) due to the economics downturn and the impact of tightened monetary policy, individually assessed provision was RMB4.860 billion, representing an increase of RMB383 million from last year. In 2008, credit cost ratio was 0.80%, representing an increase of 0.22 percentage point from last year. Without taking into account the special provisions mentioned above, credit cost ratio was 0.65%.

3.6 Income tax

In 2008, the Group's income tax expense was RMB7.229 billion, representing a decrease of RMB3.483 billion or 32.51% from last year. The effective tax rate was 20.24%, lower than the statutory tax rate of 25%, mainly due to the fact that the Group's interest income from Government bonds is exempted from income tax pursuant to the relevant provisions of the tax law.

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

		(in millions of RMB)
	2008	2007
Current tax	**8,244**	9,643
Deferred tax	**(1,015)**	1,069

4 ANALYSIS ON MAJOR BALANCE SHEET ITEMS

4.1 Assets

As at 31 December 2008, the Group's total assets was RMB2,682.947 billion, representing an increase of RMB572.503 billion or 27.13% as compared to the beginning of the year. The Group's assets consist of four principal components, namely loans and advances to customers, investment in securities, cash and balances with central banks and due from other banks and financial institutions, accounting for 48.41%, 23.22%, 13.50% and 12.36% of the Group's total assets, respectively, as at 31 December 2008.

The table below shows the outstanding balances of the principal components of the Group's total assets as at the dates indicated:

		(in millions of RMB)
	31 December 2008	31 December 2007
Loans and advances to customers		
Corporate loans Note	**1,053,799**	900,536
Individual loans Note	**205,058**	172,474
Discounted bills Note	**69,733**	31,480
Total loans and advances to customers before impairment allowances	**1,328,590**	1,104,490
Impairment losses on loans and advances	**(29,814)**	(21,702)
Loans and advances to customers	**1,298,776**	1,082,788
Investment in securities	**623,071**	557,102
Cash and balances with central banks	**362,180**	261,433
Due from other banks and financial institutions	**331,511**	156,110

Note: Corporate loans, individual loans and discounted bills represent amounts before impairment allowances.

(I) Loan business

Adhering to the macro-control policies, the Group managed to maintain a relatively fast growth in its loan business for the year as a result of its flexible control over the scale and pace of its loan disbursements in 2008. As at 31 December 2008, the total outstanding loans and advances to customers was RMB1,328.590 billion, representing an increase of RMB224.100 billion or 20.29% from the beginning of the year. Of which, loans and advances made by domestic branches increased by RMB218.747 billion, representing an increase of 22.98%. The loans to deposits ratio was 71.21%, representing an increase of 0.21 percentage point from the beginning of the year.

Loan concentration by industries

In 2008, the Group conscientiously supported the macro-control policy and national policies relating to different industries and strengthened the management of its loan disbursements. The Group increased its credit support for critical sectors such as key national infrastructural projects, small-and-medium enterprises, agricultural sector and disaster-reconstruction. The proportion of loans to electricity, transportation and other energy-related industries further increased. The Group also strengthened its rural financial service and agricultural-related loans increased by 17.7% from the beginning of the year. The Group continued to introduce innovative products and services to small enterprises, which, for example, resulted in strong growth in "Zhan Ye Tong" loans. Meanwhile, the Group continued to implement its differentiated policies for enterprises in different sectors. For instance, loans to industries with over-capacity or those categorised as "high-polluting, energy-intensive, resources-dependent" and surplus production capacity sectors were reduced by RMB3.81 billion. It had better control over the proportion of loans to textile and real estate industries.

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

	31 December 2008		31 December 2007	
(in millions of RMB unless otherwise stated)	**Outstanding balance**	**Proportion (%)**	Outstanding balance	Proportion (%)
Manufacturing				
— Petroleum and chemical	**60,331**	**4.54**	51,599	4.67
— Electronics	**23,680**	**1.78**	22,465	2.03
— Steel making and processing	**33,766**	**2.54**	27,845	2.52
— Machinery	**67,141**	**5.05**	52,823	4.78
— Textile	**22,102**	**1.66**	24,124	2.18
— Others	**114,481**	**8.63**	99,850	9.04
Transportation	**148,935**	**11.21**	121,578	11.01
Electricity	**105,541**	**7.94**	76,751	6.95
Wholesale and retail	**108,559**	**8.17**	95,153	8.62
Services	**49,990**	**3.76**	37,267	3.37
Real estate	**88,568**	**6.67**	77,592	7.03
Utilities	**92,207**	**6.94**	79,411	7.19
Construction	**52,261**	**3.93**	46,206	4.18
Energy and mining	**20,279**	**1.53**	14,451	1.31
Recreation and entertainment	**20,560**	**1.55**	22,065	2.00
Accommodation and catering	**13,977**	**1.05**	10,366	0.94
IT and communications service	**8,200**	**0.62**	12,149	1.10
Financial institution	**10,164**	**0.77**	13,808	1.25
Others	**13,057**	**0.98**	15,033	1.36
Total corporate loans	**1,053,799**	**79.32**	900,536	81.53
Mortgage loans	**133,415**	**10.04**	112,941	10.23
Medium-term and long-term working capital loans	**23,873**	**1.80**	22,709	2.06
Short-term working capital loans	**16,883**	**1.27**	11,333	1.03
Car loans	**4,271**	**0.32**	4,534	0.41
Credit card advances	**20,453**	**1.54**	7,929	0.72
Others	**6,163**	**0.46**	13,028	1.17
Total individual loans	**205,058**	**15.43**	172,474	15.62
Discounted bills	**69,733**	**5.25**	31,480	2.85
Gross amount of loans and advances to customers before impairment allowances	**1,328,590**	**100.00**	1,104,490	100.00

As at 31 December 2008, the Group's loans to corporate entities amounted to RMB1,053.799 billion, representing an increase of RMB153.263 billion or 17.02% from the beginning for the year. The loans are mainly concentrated in the manufacturing, transportation, wholesale and retail and electricity industries, accounting for 64.96% of the total corporate loans.

As at 31 December 2008, loans to individuals amounted to RMB205.058 billion, representing an increase of RMB32.584 billion or 18.89% from the beginning of the year. The proportion of individual loans to total loans and advances to customers decreased by 0.19 percentage point from the end of the previous year to 15.43%. The increase in mortgage loans, being affected by the decrease in market transaction volume and the global economy downturn, slowed down and increased by RMB20.474 billion or 18.13% as compared to the beginning of the year. The proportion of mortgage loans to total individual loans decreased by 0.42 percentage point. Credit card advances increased by RMB12.524 billion, representing an increase of 157.95% as compared to the beginning of the year. The proportion of credit card advances to total individual loans increased by 5.37 percentage points. The increase was attributed to a higher number of credit cards in issuance and an increase in credit card spending.

Borrowers concentration

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

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

(in millions of RMB unless otherwise stated)

	As at 31 December 2008		
	Type of Industry	**Outstanding loan balance**	**Percentage of total loans and advances (%)**
Customer A	Manufacturing — Petroleum and chemical	6,818	0.51
Customer B	Construction	6,174	0.46
Customer C	Transportation	4,376	0.33
Customer D	Wholesale and retail	4,100	0.31
Customer E	Transportation	3,560	0.27
Customer F	Transportation	3,450	0.26
Customer G	Utilities	3,067	0.23
Customer H	Manufacturing — Petroleum and chemical	2,930	0.23
Customer I	Transportation	2,720	0.20
Customer J	Transportation	2,600	0.20
Total of Top 10 customers		39,795	3.00

Loan concentration by geographical locations

The Group's loans and advances to customers are mainly concentrated in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. Loans and advances to customers in these three regions increased by 27.15%, 18.86% and 7.80%, respectively, accounting for 65.86% of the Group's total loans and advances to customers outstanding as at 31 December 2008.

Loan quality

The Group continuously improves the quality of its loans. As at 31 December 2008, the impaired loans ratio was 1.92%, representing a decrease of 0.13 percentage point from the beginning of the year. The provision coverage of impaired loans was 166.10%, representing an increase of 23.60 percentage points from the beginning of the year[Note].

Note: The provision coverage of impaired loans (after deducting statutory general reserves after tax) reached 116.83%, representing an increase of 21.20 percentage points from the beginning of the year.

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

		(in millions of RMB unless otherwise stated)
	31 December 2008	31 December 2007
Individually identified impaired loans	**25,520**	22,694
Loans overdue by more than 90 days	**20,979**	19,708
Percentage of impaired loans to gross amount of loans and advances to customers	**1.92%**	2.05%

Customer structure

The Group further optimised its customer structure. Corporate customers of the Group's domestic branches are classified using a 10-class credit rating system. Compared to the beginning of the year, loans outstanding to class 1 to class 5 high quality customers amounted to 80.50% of the total outstanding loan balance, representing an increase of 6.13 percentage points while loans outstanding to class 6 to class 7 customers amounted to 13.62% of the total outstanding loan balance, representing a decrease of 5.94 percentage points, and loans outstanding to class 8 to class 10 high risk customers amounted to 2.12%, representing a decrease of 0.21 percentage point.

(II) Treasury business

In 2008, the Group set up the Financial Markets Division, which realised the integration of the management of domestic and foreign currency operations. As the Group further strengthened the centralisation of its treasury operations and optimised its investment structure, revenue derived from its treasury operations has further increased. As at 31 December 2008, the Group's outstanding balance of investment securities (after impairment allowances) amounted to RMB623.071 billion, representing an increase of RMB65.969 billion or 11.84% from the previous year. Return on investment securities increased by 69 basis points from last year to 3.99%, thereby effectively improving the profitability of the Group's assets.

Investment securities

The table below shows the distribution of the Group's investment in securities by holding purposes and by type of issuers as at the dates indicated:

— By holding purposes

(in millions of RMB unless otherwise stated)

	31 December 2008		31 December 2007	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Investments at fair value through profit or loss	**22,280**	**3.58**	17,002	3.05
Loans and receivables	**90,903**	**14.59**	66,693	11.97
Available-for-sale investments	**142,010**	**22.79**	146,454	26.29
Held-to-maturity investments	**367,878**	**59.04**	326,953	58.69
Total	**623,071**	**100.00**	557,102	100.00

— By type of issuers

(in millions of RMB unless otherwise stated)

	31 December 2008		31 December 2007	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Central governments and central banks	**294,356**	**47.24**	307,556	55.21
Public sector entities	**8,764**	**1.41**	5,912	1.06
Banks and other financial institutions	**225,966**	**36.27**	209,355	37.58
Corporate entities	**93,985**	**15.08**	34,279	6.15
Total	**623,071**	**100.00**	557,102	100.00

Foreign currency denominated debt securities

The Group believes in having a sustainable and sound investment philosophy. The Group has disposed of its holdings of debt securities issued by Fannie Mae, Freddie Mac and Lehman Brothers in a timely manner after the global sub-prime crisis erupted. This improved the Group's exposure to the underlying credit risk in its investment portfolio. As at 31 December 2008, the Group holds US$4.9 billion (approximately RMB33.487 billion) worth of foreign currency denominated debt securities, and this accounted for 1.25% of the Group's total assets.

4.2 Liabilities

As at the end of 2008, the Group's total liabilities reached RMB2,532.852 billion, increased by RMB555.729 billion or 28.11% from the beginning of the year.

Customer deposits

Customer deposits are the main source of fund for the Group. As at 31 December 2008, the Group's customer deposits balances amounted to RMB1,865.815 billion, increased by RMB310.216 billion or 19.94% as compared to the beginning of the year. The Group has a sound deposit structure. In terms of customers portfolio, corporate deposits accounted for 63.25% of the total deposits, representing a fall of 1.04 percentage points from the beginning of the year; individual deposits accounted for 36.21%, representing an increase of 1.40 percentage points from the beginning of the year. In terms of the term of deposits, current deposits accounted for 47.07% of the total deposits, representing a drop of 12.53 percentage points from the beginning of the year; time deposits accounted for 51.09%, representing an increase of 13.01 percentage points from the beginning of the year. The rise in fixed deposits is due to market fluctuations which trigger customers to place more deposits.

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

		(in millions of RMB)
	31 December 2008	31 December 2007
Corporate deposits	**1,180,207**	1,000,040
Of which: Corporate current deposits	**646,894**	699,289
Corporate saving deposits	**8,207**	7,785
Corporate time deposits	**525,106**	292,966
Individual deposits	**675,564**	541,446
Of which: Individual current deposits	**231,335**	227,796
Individual saving deposits	**16,093**	14,295
Individual time deposits	**428,136**	299,355

5 SEGMENT ANALYSIS

5.1 Operating results by geographical segments

With the exception of its overseas operations, the Group's other geographical segments have all experienced profit growth in 2008. Profits from the Group's overseas operations have declined significantly due to the impact of the sub-prime crisis in the United States which caused relatively significant losses from investments in foreign currency denominated bonds.

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

				(in millions of RMB)
	2008		2007	
	Net profit/ (loss)	**Total revenue** [1]	Net profit/ (loss)	Total revenue [1]
Northern China	**3,897**	**24,562**	2,950	16,717
North Eastern China	**962**	**7,607**	829	6,002
Eastern China[2]	**11,010**	**49,393**	7,144	36,813
Central and Southern China	**5,730**	**24,130**	4,313	18,702
Western China	**1,794**	**9,547**	1,376	7,412
Overseas	**50**	**5,700**	960	8,651
Head Office	**5,047**	**31,767**	2,844	19,483
Eliminations	**—**	**(22,902)**	(14)	(13,465)
Total[3]	**28,490**	**129,804**	20,402	100,315

Notes:

1. Includes interest income, fee and commission income, dividend income, gains less losses from trading activities, gains less losses arising from the de-recognition of investment securities and other operating income.
2. Excludes Head Office.
3. Includes minority interests.

5.2 Deposits and loans and advances balances by geographical segments

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

(in millions of RMB)

	As at 31 December 2008		As at 31 December 2007	
	Deposit balance	**Loans and advances balance**	Deposit balance	Loans and advances balance
Northern China	**353,576**	**257,720**	270,655	209,844
North Eastern China	**152,496**	**73,961**	132,207	64,102
Eastern China[Note]	**712,409**	**530,674**	605,658	440,670
Central and Southern China	**384,419**	**252,763**	324,907	222,589
Western China	**174,069**	**111,579**	150,311	93,660
Overseas	**86,930**	**73,844**	71,225	64,515
Head Office	**1,916**	**28,049**	636	9,110
Total	**1,865,815**	**1,328,590**	1,555,599	1,104,490

Note: Excludes Head Office.

5.3 Operating results by business segments

The Group's business is mainly divided into four business segments: corporate banking, retail and private banking, treasury and others. The corporate banking segment was the primary source of profit for the Group and operating profit before tax from the corporate banking segment accounted for 81.84% of the Group's total operating profit before tax.

The table below shows the amount of the operating results of each of the Group's business segments for the periods indicated:

(in millions of RMB)

	Total revenue for the year 2008	Total revenue for the year 2007	**Operating profit before tax for the year 2008**
Corporate banking	**75,833**	60,479	**29,231**
Retail and private banking	**18,915**	13,772	**6,020**
Treasury	**33,932**	25,606	**2,802**
Others	**1,124**	458	**(2,334)**
Total	**129,804**	100,315	**35,719**

6 OTHER FINANCIAL INFORMATION

Set out below are the relevant information disclosed pursuant to the latest requirements of CSRC.

6.1 Fair value measurement related items

The Group has completed the initial development of an internal control framework which uses fair value measurement as its basis by restructuring its market risk management system in order to satisfy the relevant internal control and information disclosure requirements. Such framework involves all the relevant front office, middle office and back office departments and encompasses fair value valuation, measurement, monitoring and verification. The Group also plans to learn from the experience of its peers in the industry and international practices to further optimise its internal control system relevant to fair value measurement. The Group primarily uses quoted market prices as the fair value of financial instruments traded in active markets and valuation models or third party quotes are used to determine the fair value of financial instruments that are not traded in an active market.

The table below shows the fair value measurement related items of the Group in 2008:

(in millions of RMB)

Item	Opening balance	Gains/ (losses) on change in fair value	Cumulative fair value gains/ (losses) recognised in equity	Impairment losses	Closing balance
Financial assets					
Includes:					
1. Financial assets, measured at fair value, changes of which are recorded in profit and loss	19,340	2,703	—	—	26,936
Includes: Financial derivatives	2,338	2,318	—	—	4,656
2. Financial assets, available-for-sale	146,454	—	3,647	(1,085)	142,010
Total financial assets	165,794	2,703	3,647	(1,085)	168,946
Financial liabilities	(10,028)	(2,356)	—	—	(10,013)
Investment property	136	(19)	—	—	109
Total	155,902	328	3,647	(1,085)	159,042

6.2 Holdings in foreign currency denominated financial assets and financial liabilities

The Group has adopted a strict accounting policy for its financial instruments in 2008, with a particular focus on the accounting policy for its foreign currency denominated financial assets and financial liabilities. The Group has also paid significant attention to the decline in value of its financial assets in view of the continued decline in market prices.

The table below shows the foreign currency denominated financial assets and financial liabilities held by the Group in 2008:

(in millions of RMB)

Item	Opening balance	Gains/ (losses) on change in fair value	Cumulative Fair value gains/ (losses) recognised in equity	Impairment losses	Closing balance
Financial assets					
Includes:					
1. Financial assets, measured at fair value, changes of which are recorded in profit and loss	3,322	1,818	—	—	6,185
Includes:					
Financial derivatives	569	1,851	—	—	2,420
2. Loans and receivables	657	—	—	—	137
3. Financial assets, available-for-sale	33,682	—	(832)	(1,080)	28,223
4. Financial assets, held-to-maturity	2,811	—	—	(5)	1,634
Total of financial assets	40,472	1,818	(832)	(1,085)	36,179
Financial liabilities	(9,797)	507	—	—	(6,919)

Bank of Communications has issued three categories of Pacific Cards, comprising credit cards, quasi-credit cards and debit cards under two major product categories, namely international cards and RMB cards. Over a hundred types of co-branding/identification/specialized cards have also been distributed under the Pacific Card series. As an integrated financial tool, Pacific Card offers a series of functions including Wealth Management Link, Nation Wide Link, Global Wide Link, Utility Fee Payment Link, Bank-message Link, Hot-line Link and Net-bank Link and provides total easy and convenient financial transactions services all around the world.

7 RISK MANAGEMENT

In 2008, the Group formulated a comprehensive “Three-year Risk Management Plan” (the “Plan”) that sets out clear blueprint for the development of the Group’s risk management and establishes different milestones for the overall development plan. According to the Plan, the Group continued to forge ahead the establishment of the comprehensive risk management framework during the Reporting Period by deepening the structural reforms of the risk management framework and strengthening the technological support for risk management. Further, the Group will promote the development of the risk management team to ensure that risks are controlled at a reasonable level so that different business operations can be carried out safely and prudently.

The Board will be held ultimately responsible for, and makes final decisions on the Group’s risk management. It approves the overall risk appetite, determines overall risk management strategy and approves the risk exposure of the Group. The Board also ensures sufficient risk management resources are in place to assess and manage the Group’s risk exposures through the risk management committee.

The senior management of the Group is responsible for formulating and implementing appropriate risk policies and procedures and control system based on the risk management strategy approved by the Board. Risk management committee has been established under the senior management. Such risk management committee is comprised of three sub-committees for the management of credit, market and operation risks, respectively. These sub-committees are responsible for the periodic assessments of the risk exposures and the effectiveness of the risk management of the Group.

The Group’s Chief Risk Management Officer assumes the duties and responsibilities of implementing the overall risk management on behalf of the senior management. The Chief Risk Management Officer is responsible for the implementation of the risk management strategies, the planning and establishment of a comprehensive risk management system, the coordination and management of the Group’s four major risk areas, and the organisation and implementation of various risk management policies and tools.

In 2008, the Group proactively established the risk management system and framework with “Comprehensive, Intensive, Matrix” as its targets and hierarchical risk management structure as its basis. The Group restructured the Risk Monitoring Department at the Headquarters to form the Risk Management Department, which assumes the overall risk management functions of all types of risk. As clearly defined in the risk management structure, all risk management departments under each business departments, domestic and overseas branches and subsidiaries will assume the actual risk management functions of all types of risk for different lines of business of the Group as well as regional and subordinate institutions. With a clear division of labour and the establishment of a dual reporting mechanism, a basic risk management model is formed through the "4 layers of defences" composed of business operations, business line management, risk management department and internal audit department.

In 2008, the Group proactively explored the use of sensitivity test management tools, formulated the "Bank of Communications Comprehensive Work Plan for Sensitivity Testing", and performed various sensitivity tests based on a number of scenarios such as slowdown in economics growth, decline in housing price indices, adjustment to interest rates and change in foreign exchange rates.

7.1 Credit risk management

Credit risk refers to the risk of borrowers or counterparties failing to meet due contractual obligations. Credit risk remains the major risk of the Group at the present stage, and primarily exists in company loans, retail loans, treasury operations, inter-bank transactions and international business.

(1) Methods and procedures on risk classification

For corporate loans, the Group determines impaired credit assets via its asset risk management system daily by using the three-tier risk filtering method and discounted cash flow to estimate the expected loss resulting from each corporate loan. For impaired credit assets, the Group formulates an action plan for each customer and appoints designated personnel to collect or dispose of such assets, and makes provisions for allowance of impairment loss individually according to the expected loss. For non-impaired corporate loans, taking into account customers' credit standings, financial status and repayment capability, the Group uses an internally developed 10-class credit rating system to manage of such corporate loans. Customers with class 1–5 are

considered by the Group as high-quality customers, class 6–7 are considered as general customers and class 8–10 are considered as problematic customers. The Group adopts different business strategies depending on customers' different grading.

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

(2) Risk management and control policies

The Group implements standardised management throughout the whole credit process, including credit check and reporting, credit authorisation investigation and approval, loan drawdown, post-lending supervision and non-performing loan management. During the Reporting Period, the Group practically responded to the challenges brought by the changes in the global and domestic macro-economy and continuously promoted the development and enhancement of the foundation for credit risk management. Reasonable control over the amount and pace of loan disbursements, the adjustment and optimisation of the credit orientation and structure, the enhancement and development of post-lending management as well as the development and promotion of various risk management tools all contributed to the Group's timely and effective identification, measurement, monitoring and management of potential credit risk in various aspects.

Credit risk management with respect to corporate loans

During the Reporting Period, the Group implemented a hierarchical approval system comprised of branches, regional credit review centres and head office, which further intensified the centralised control of regional credit review centres and head office over the credit review process, enabling the Group to continuously optimise the customer and loan structure.

During the Reporting Period, in line with the country's macro-control policies, the Group issued guidance on the changes in the government's policy in respect of credit business and strengthened the regional differentiation management. The Group effectively promoted the implementation of "Green Credit" project, increased its loan disbursements to national key projects, small and medium enterprises, three dimensional rural loans and disaster reconstruction, increased its support for transportation, electricity and mechanical industries, and reduced loans to industries categorised as "high-polluting, energy-intensive, resources-dependent" and surplus production capacity sectors, thereby achieving a prudent and balanced credit portfolio.

During the Reporting Period, the Group completed the overall implementation of the internal rating system for its corporate banking business. From the model validation and feedbacks gathered, the model has performed reasonably well and in line with the Group's expectation. The application of internal rating model on credit evaluation and post-lending management has been developed smoothly, thereby playing a significant role in measuring credit risk and evaluating customers' values.

During the Reporting Period, the Group strengthened its post-lending management and achieved positive results. By standardising and optimising the post-lending management system, the Group stepped up its efforts in monitoring and providing guidance to branches on strict implementation of the post-lending management. Through the effective and efficient use of monitoring tools such as risk filters, watch list, migration analysis, risk alert system, the Group further improved its risk monitoring mechanism. By implementing risk monitoring on high risk areas such as group customers, other breaching banks, large credit customers, companies acting as guarantors and private financing, the Group has a comprehensive understanding and control over potential credit risks. With the establishment of a monthly reporting system on high risk customers, the Group further strengthened the follow-up analysis and guidance to management on unexpected credit risk incidents. By developing and promoting the customers' credit risk alert system, the Group can receive advance warnings from the analysis of its customers' group companies correlation patterns and identify potential risks associated with such customers.

The Group has centralised the collection and disposal process on corporate and retail non-performing loans. The Group managed the non-performing loans through various means including collection, restructuring, disposal of collaterals, recourse to guarantors, litigation, arbitration, written-off as allowed under the regulatory requirements.

During the Reporting Period, the Group intensified efforts of the head office in direct and centralised management of non-performing loans, focusing on the collection of non-performing loans for major projects and by particular branches. Through the use of innovative collection methods such as the use of assets for repayment and capital operation to continually enhance the collection and management of non-performing loans, the Group has achieved good results.

Credit risk management with respect to retail loans

The Group centrally managed retails loans at branch level based on special features of such loans. The centralised processes include risk verification, review and approval and other intermediary procedures. During the Reporting Period, the Group followed the country's macro-economic control policies and market changes closely so as to monitor the credit provision on retail loans, and strictly controlled the regions, customers and products offered as part of its retail lending business.

In 2008, the Group completed the development and testing of its internal rating model for retail business. The model has been on trial in certain branches, paving the way for full implementation across the bank and integration at a later stage.

In 2008, the Group actively used various tools and measures of pre-intervention to strengthen the monitoring of retail loan risk, including the use of risk alerts and sensitivity test to enhance the ability to identity risks early and provide prompt alert, formulating emergency response protocol to resolve unexpected credit risks; placing customers with high potential risk on a watch list for special management; and implementing different types of collection methods on defaulting retail loan customers depending on the age of the debt. The Group commenced the development and creation of a credit management system for small enterprises, optimised its retail credit system and enhanced systematic management of retail credit risk to ensure the quality of retail loan assets.

The Group has a stand-alone credit card centre which operates and manages credit card business. Credit card business has its own independent risk policies, work flow and credit approval process. Credit risk is evaluated and controlled through means such as customer credit cycle concept, product portfolio management strategy, score card tool, aging analysis, and time series analysis methods.

Credit risk management with respect to treasury business

The Group practises centralised review and approval and management of approval limits with respect to the granting of credit to other banking institutions as part of its treasury business. The Group manages its treasury business credit risk through careful selection of clients, timely risk review, giving due consideration to both internal and external credit ratings, hierarchical credit approval system, and the use of its approval limits management system to review and adjust credit limits in a timely manner. During the Reporting Period, the Group's phase one management system in respect of inter-bank credit authorisation has successfully been put into operation, which effectively promoted the control over its risk exposure from its investment and strengthened the monitoring of inter-bank lending.

7.2 Liquidity risk management

Liquidity risk refers to the risk of possessing insufficient funds to meet debt obligations as they fall due. The Group's exposure to liquidity risks arises primarily from early or high volume withdrawals by depositors, borrowers delaying their loan repayments and mismatch of the amounts and maturity dates of assets and liabilities.

In 2008, global economic conditions have undergone drastic changes, which caused the Central Government's policy direction to change accordingly. During the Reporting Period, the key factor impacting on the Group's liquidity is the adjustments that were made to the statutory deposit reserve ratio: i) in the first half of 2008, PBOC raised the deposit reserve ratio 6 times by 3 percentage points in aggregate, reducing the Group's available funds and thereby impacting our liquidity; ii) since October 2008, PBOC reduced the deposit reserve ratio 4 times, out of which 3 adjustments (resulting in a total reduction of the ratio by 2 percentage points) are applicable to the Group, freeing up part of the reserve funds and thus enabling the Group to have greater access to funds. All in all, although the numerous adjustments to the deposit reserve ratio have had an impact on the Group during the Reporting Period, the impact has not been significant.

During the Reporting Period, the Group formulated an appropriate liquidity management plan based on our projection on liquidity needs. Besides, the Group conducted periodic analysis of macro-economic situation, PBOC's monetary policies, and money market developments. The Group actively managed liquidity of the Bank by implementing the following measures: i) maintaining stability in liabilities and increasing the proportion of core deposits in total liabilities; ii) setting parameters and limits to monitor and manage the Bank's liquidity position; iii) centralised management at the head office of the use of the Bank's liquidity assets; iv) keeping a healthy ratio of PBOC reserves, overnight inter-bank borrowing and lending, and high liquidity debt investment, as well as actively participating in the operations of open market, money market and bond markets to ensure sound financing capacity in the market; v) reasonably matching maturity dates of assets to reduce liquidity risk through a diversified liquidity portfolio.

During the Reporting Period, by combining the characteristics of the macro-economics situations in 2008, the Group has focused on the implementation of the following two measures to enhance liquidity risk management: i) formulating a liquidity risk emergency plan, setting up periodic monitoring and alerting mechanism, establishing risk assessment and crisis management plan; and ii) enhancing liquidity management on overseas branches, proactively responding to global financial market changes.

As at 31 December 2008, relevant indicators of the Group's liquidity are as follows:

Major regulatory indicators	31 December 2008	31 December 2007
Liquidity ratio (Local and foreign currencies)	**39.72%**	27.20%
Loan-to-deposit ratio (Local and foreign currencies)	**65.29%**	64.93%

Note: Calculated in accordance with the regulatory requirements applicable to the China banking industry.

7.3 Market risk management

Market risk refers to the risk of on- and off-balance sheet operating losses arising as a result of adverse changes in market price. Market risk exists in the Group's trading book and banking book. The trading book records the Group's tradable financial assets and liabilities with respect to its treasury business including derivative financial instruments. The banking book records the Group's non-tradable financial assets and liabilities.

According to the relevant provisions in "Measures for the Management of Capital Adequacy Ratios of Commercial Banks" promulgated by China regulatory authority, the Group assesses market risk capital regularly, and ensures that capital is adequate to cover its market risk.

During the Reporting Period, the Group has strengthened its centralised management on market risk. The Group has made revisions and improvements to its existing market risk management system, and further standardised market risk limits management and financial tools classification management; continuously expanded the scope of the Bank's periodic market risk assessment, thus reinforcing its importance in decision making; formulated the risk management measures on wealth management products, focused on the standardisation of the procedures for the risk audit of wealth management products and promoted implementation of the requirements on wealth management products risk management.

Under the volatile global financial market environment, the Group is highly concerned about risk control on its investment in foreign currencies bonds during the Reporting Period. By paying close attention to market dynamics, daily real-time monitoring, refining the requirements on classification management, and formulating appropriate control measures, the Group has strengthened the prevention and resolution of potential risk. Through a comprehensive clean up and temporary freeze of the granting of credit to potentially risky business, the Group has effectively prevented the outbreak of potential risk. By enhancing guidance on disposal of high risk bonds and reducing the investment in high risk foreign currencies bond at the best available opportunity, the Group was in a better position to avoid losses in foreign currencies funds brought by the global financial crisis.

Based on the classification of the market risk drivers, the Group's major market risks include interest rate risk, exchange rate risk and other price risk.

(1) Interest rate risk management

Interest rate risk, the Group's largest market risk factor, exists in the Group's trading and banking books. Interest rate risk on trading book mainly reflected the possible negative impact that the changes in interest rate may have on the fair value of the assets under the trading book. Interest rate risk on banking book mainly reflected the risk associated with the changes in interest rate which may result in reducing net interest income for the Group.

The Group implemented limit management on interest rate risk on trading book by setting trading limits, stop-loss limits, exposure limits and sensitivity limits, and systematically monitor such limits. In practice, the Group manages interest rate risks on the trading book through the introduction of parameters such as duration, convexity and value basis point, combined with an analysis of the market environment and position distribution of the Group. Moreover, the Group progressively strengthens the portfolio operation of its trading book, as well as appropriately use financial derivative instruments to control and hedge the interest rate risk on the trading book.

The interest rate risk on banking book mainly arises from the mismatch in the repricing periods of the Group's assets and liabilities. The Group has preliminarily developed a comprehensive banking book's interest rate risk monitoring system, by regularly monitoring the gap in the repricing periods of interest-rate-sensitive assets and liabilities through measures such as gap analysis, taking the initiative to adjust the proportion of floating rate and fixed rate assets and so on, thereby effectively managed banking book's exposure to interest rate risk.

(2) Exchange rate risk management

Exchange rate risk, including exchange rate risk on the trading book arising from the Group's proprietary and agency foreign exchange trading and the structural exchange rate risk arising from the mismatching of the foreign currency denomination of its assets and liabilities, exists in the Group's trading and banking books. The Group continued to enhance its trading system and information management system to manage and control the Bank's exchange rate risk through measures such as restricting and minimising the exposure to exchange rate risk to permissible limits under the Bank's policies by establishing and controlling the relevant limits, strengthening the matching of the currency structure of assets and liabilities by actively adjusting the structure of foreign currency denominated assets, and diverting and hedging against exchange rate risk by suitably utilising financial derivative instruments.

(3) Other price risk management

Other price risk is largely derived from the equity investments held by the Group and other commodity price linked derivatives. Most equity investments were created due to historical reasons or were assets obtained through foreclosure. The Group is of the view that other price risk faced by the Group is not significant.

(4) Risk analysis

During the Reporting Period, the Group actively promoted the Value at Risk Model (VaR) for monitoring and measuring part of the market risk on the trading book. Sensitivity analysis is currently the main tool that the Group deploys for assessment and quantification of market risks on the trading and banking books.

Interest rate risk and sensitivity analysis

The table shows the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates:

(in millions of RMB)

	Non-interest bearing	Less than 1 month	1–3 months	3 months–1year	1–5 years	Over 5 years	Total
Total assets	80,740	1,224,524	251,553	705,414	270,078	150,638	2,682,947
Total liabilities	(63,498)	(1,441,363)	(250,585)	(524,995)	(225,842)	(26,569)	(2,532,852)
Net exposure	17,242	(216,839)	968	180,419	44,236	124,069	150,095

The table below illustrates the potential impact of a simple 100 basis points (bp) change in the yield on the financial position of the Group at 31 December to the net interest income of the coming year and to the reported equity:

(in millions of RMB)

	Net Interest Income		Equity	
	For the year ending 31 December 2009	For the year ended 31 December 2008	**As at 31 December 2008**	As at 31 December 2007
Yield increase by 100bp	**5,175**	4,477	**(1,971)**	(1,351)
Yield decrease by 100bp	**(5,175)**	(4,477)	**2,088**	1,380

Exchange rate risk and sensitivity analysis

As at 31 December 2008, the Group's foreign exchange risk exposure is as follows:

(in millions of RMB)

	RMB	US$ converted to RMB	HKD converted to RMD	Other currencies converted to RMB	Total
Total assets	2,439,425	151,072	63,579	28,871	2,682,947
Total liabilities	(2,314,434)	(125,678)	(68,096)	(24,644)	(2,532,852)
Net exposure	124,991	25,394	(4,517)	4,227	150,095

The table below illustrates the potential impact from the change of Renminbi against US dollar, HK dollar and other currencies by 5% on the Group's net profit and reported equity:

				(in millions of RMB)
	Net Profit/(Loss)		**Equity**	
	For the year ended 31 December 2008	For the year ended 31 December 2007	**As at 31 December 2008**	As at 31 December 2007
RMB appreciate by 5%	**(903)**	(1,066)	**(196)**	(299)
RMB depreciate by 5%	**903**	1,066	**196**	299

7.4 Operational risk management

Operational risk refers to the direct or indirect risk of losses caused by inadequate or improper internal processes, employees and information system in its operations, and external events.

During the Reporting Period, the Group strengthened its centralised management on operational risk. The Group revised and optimised the Bank's operational risk management measures, formulated a comprehensive operational risk management development plan, focused its operational risk management on key areas such as accounting, information technology and anti-fraud. There was no major operational risk related incidents or cases in the Reporting Period, reflecting the safe operations of all lines of business of the Bank.

For accounting operational risk management, the Group has strengthened its management on vault during the Reporting Period, cash, deposit boxes, self-servicing equipment, resulting in a significant improvement on cash and treasury management. The Group also optimised the management on the fund transfer and remittance process, which effectively reduced the associated operational risk. In addition, the Group continuously improved and optimised its accounting risk management tools through the continuous enhancement of its accounting risk monitoring system, vigorously implemented its accounting risk management system by developing a real-time online accounting risk monitoring system, and increased the efficiency of its alert system by expanding its scope.

For information technology risk management, the Group continuously improved the capability of its information technology risk management system through enhancing the system and technical specifications, as well as specifying management requirements and security control points during the Reporting Period. The Group successfully implemented the switch of operations between its data center and the disaster recovery center. The stable operation of its disaster recovery center effectively assured information security during the Olympics and also led to stable operation of various business operating systems and information system. The Group also successfully completed the development of the ISO27001 information security management system and has obtained the ISO27001 international certification on information security.

During the Reporting Period, the Group actively stepped up its efforts on anti-fraud risk management. The Group established anti-fraud management divisions and teams, developed the two-tier anti-fraud management process at the head office and its branches, initiated the development of the anti-fraud information management system, constructed the fraud alert channels, thereby effectively prevented and controlled fraud related risk.

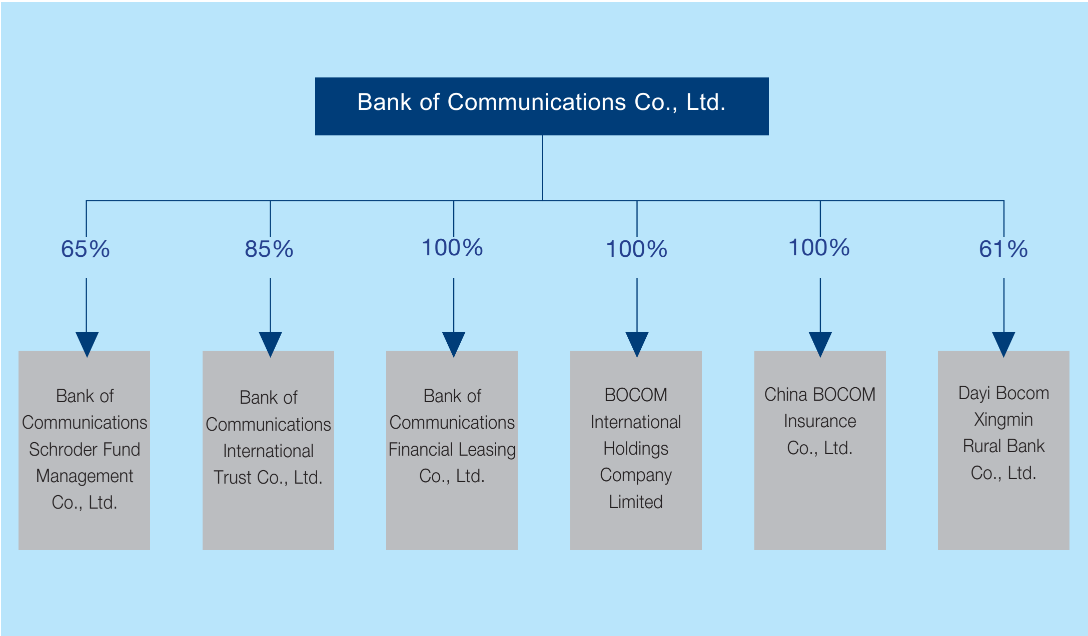
7.5 Anti-money laundering

The Group has progressively established an Anti-money Laundering (AML) system on the basis of systematic development, together with the focus on its internal control system and the application of its system platform as security measures, thereby further improving its AML related work.

During the Reporting Period, the Group actively advanced its system development, published and revised a number of AML work recommendations and management measures. The Group also continued to achieve system development breakthrough by completing the development of systems such as the offsite AML monitoring system and the customers' risk classification system. The Bank also improved its system governing large and suspicious transactions and implemented the system for automatic perspective data collection and reporting.

8 OPERATING STATUS OF MAJOR SUBSIDIARIES

8.1 Organisational Structure



8.2 Operating status of major subsidiaries

(1) Bank of Communications Schroder Fund Management Co., Ltd.

BOCOM Schroder was set up in August 2005 with a registered capital of RMB200 million. It was owned as to 65% by the Bank, as to 30% by Schroder Investment Management Limited and as to 5% by China International Marine Containers (Group) Co., Ltd.. BOCOM Schroder was one of the first banking industry related fund management companies approved by the State Council and specialises in domestic public offering and fund raising, sale of funds and wealth management business. As at 31 December 2008, BOCOM Schroder managed 7 open-ended funds with total assets managed totalling RMB48.4 billion and its ranking among its competitors has increased from 23rd in the end of 2007 to 12th. Its market share of assets managed has also increased from 1.69% in the beginning of the year to 2.49%. In addition, BOCOM Schroder was awarded the 2008 "Golden Bull Fund Management Company" award by *China Securities Journal*. Investment returns for its BOCOM Schroder Money Market Fund was 13.05% in nine months, making it the top performing open-ended fund with the best investment returns in 2008. BOCOM Schroder had total assets of RMB810 million and net assets of RMB652 million as at 31 December 2008.

(2) Bank of Communications International Trust Co., Ltd.

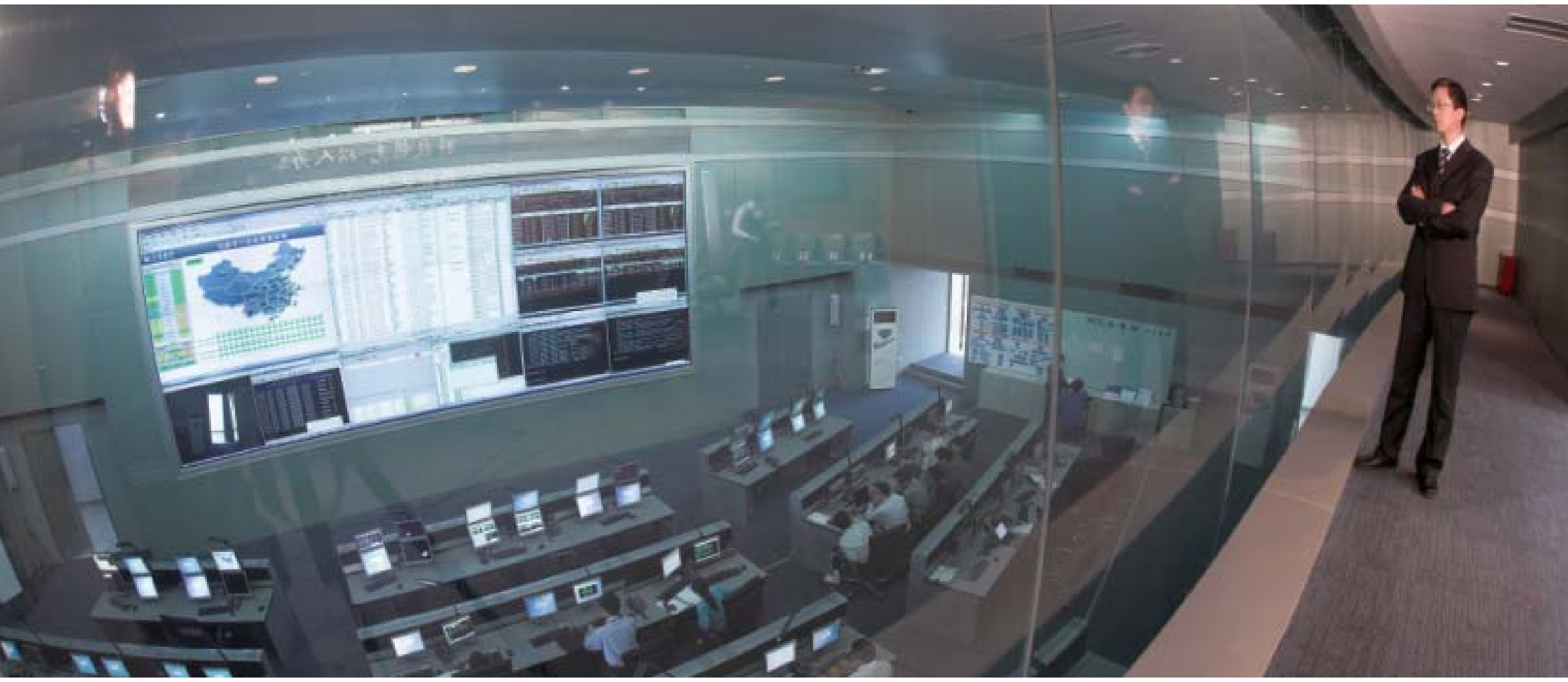
BOCOM International Trust was set up in October 2007 with a registered capital of RMB1.2 billion. It was owned as to 85% by the Bank and as to 15% by Hubei Province Finance Bureau. BOCOM International Trust was the first trust company set up and funded by a domestic commercial bank. The principal business of BOCOM International Trust includes the provision of trust services in relation to cash, movable properties, immovable properties, securities, assets and powers of attorney, as well as traditional business such as interbank deposits, interbank loans and packaged trust loans. It is also involved in the business of equity and fixed income security investments. Its trust business developed rapidly during the Reporting Period and maintained a leading position in the industry. 282 new trust plans were launched and new assets under trusteeship reached RMB47.23 billion, 172 trust plans amounted to RMB24.77 billion were successfully settled during the Reporting Period. BOCOM International Trust had total assets of RMB1.26 billion and net assets of RMB1.211 billion as at 31 December 2008.

(3) Bank of Communications Financial Leasing Co., Ltd.

BOCOM Leasing was set up in December 2007 with a registered capital of RMB2 billion. It was among the first group of finance leasing companies set up and funded by domestic commercial banks. While BOCOM Leasing's finance leasing business grew steadily during the Reporting Period, it also achieved new breakthroughs in its specialised financing business. In view of the need to perform in-depth analyses of the changes in macroeconomic trends, to clearly define the development strategies for its finance leasing business and to strike a balance between risk and return, BOCOM Leasing successfully adhered to its business development strategy and credit strategy over "large enterprise, large project and large equipment". It completed 54 finance lease transactions totalling RMB8.138 billion during the Reporting Period. At the same time, BOCOM Leasing continued to actively optimise the structure of its finance leasing portfolio and it has begun to venture into specialised finance leasing fields such as aircraft, shipping and public infrastructure. BOCOM Leasing managed to successfully conclude a finance lease for a Boeing 767 passenger airliner with Hainan Airlines Co., Ltd., finance leases with each of Wuhan Changjiang Waterway Rescue & Salvage Bureau and Ningbo Marine Company Limited as well as a new vessel finance lease strategic cooperation agreement with China Huaneng Energy and Communications (Holding) Co., Ltd.. BOCOM Leasing's total assets was RMB7.865 billion and net assets was RMB2.033 billion as at 31 December 2008.

(4) Dayi Bocom Xingmin Rural Bank Co., Ltd.

Dayi Bocom Xingmin Rural Bank was set up in August 2008 with a registered capital of RMB60 million and its principal business is to provide financial services for new rural construction projects. Since the commencement of its operations in 2008, Dayi Bocom Xingmin Rural Bank has overcome various difficulties including the Wenchuan earthquake and completed construction of basic infrastructures such as the selection of



its business location, recruitment and training of employees, development of its policies and procedures and its IT systems in an orderly and efficient manner through the active participation of the whole Bank. At the same time, Dayi Bocom Xingmin Rural Bank has also performed an in-depth domestic market research, actively developed new financial services and also actively planned for its business development by adopting various measures such as designing innovative financial products customised for local markets, increasing the extend of its sales and marketing efforts and developing business linkages with the Bank's Sichuan Branch. Dayi Bocom Xingmin Rural Bank's total assets was RMB66.41 million and net assets was RMB59.15 million as at 31 December 2008.

(5) BOCOM International Holdings Company Limited

BOCOM International was set up in early 2007 (established through the restructuring of BOCOM Securities Co., Ltd. which was set up in June 1998) with a registered capital of HKD1.0 billion. It has three wholly-owned subsidiaries, namely BOCOM International (Asia) Limited, BOCOM International Securities Limited and BOCOM Asset Management Limited. Its principal business includes investment banking, securities brokerage and asset management. During the Reporting Period, BOCOM International made adjustments to its traditional operating strategy and defined its operating principle of "adhering to traditional lines of business to guarantee basic revenue streams". It dedicated its efforts in exploring new markets and added new operating outlets in areas such as Tsim Sha Tsui, actively expanded its team of brokers and optimised its customer structure by focusing on corporate customers which are Qualified Domestic Institutional Investors. BOCOM International also achieved several breakthroughs in its investment banking business: firstly, it concluded IPO cooperation agreements with four large enterprises; secondly, it developed industrial investment fund management projects in Mainland China, including signed a memorandum of intention with the management committee of the China Qingdao National Hi-tech Industrial Development Zone in relation to the establishment of an industrial investment fund and the set up of the western region energy industrial fund management company in Guizhou; thirdly, it collaborated with local governments in Mainland China, and was engaged as financial consultant by a number of large state-owned enterprises such as the Qingdao Municipal State-owned Capital Holdings Group; fourthly, it was appointed as independent financial adviser by 14 listed companies and completed the underwriting for IPOs of three companies and participated in the underwriting of the issue of RMB-denominated bonds in Hong Kong by the Bank of China. At the same time, BOCOM International has also restructured its investment portfolio based on market conditions and thus was able to dispose of a portion of its long-term equity investments in a timely manner and the net realised gain from securities investment for the year ended 31 December 2008 was HKD11.3 million. It was able to outperform the Hang Seng Index as returns on investment in securities reached 7.6%. BOCOM International's total assets was HKD1.814 billion and net assets was HKD1.28 billion as at 31 December 2008.

(6) China BOCOM Insurance Co., Ltd.

BOCOM Insurance was set up in November 2000 with a registered capital of HKD400 million. Its principal business is the provision of property and accident insurance products and services. BOCOM Insurance actively adjusted its asset allocation strategy during the Reporting Period to minimise investment risk of its portfolio as a whole. Its business growth and efficiency was also at the forefront of its peers in the industry and its insurance business grew steadily. Gross premium income increased 12.34% when compared to the previous year to HKD87.06 million. At the same time, underwriting income increased 725.19% when compared to the previous year to HKD11.14 million. BOCOM Insurance's total assets was HKD479 million and net assets was HKD416 million as at 31 December 2008.

9. STRATEGIC COOPERATION

In 2008, the strategic cooperation between the Bank and HSBC continued to achieve steady progress. Both parties have achieved significant synergies in areas such as the exchange of technical expertise, credit card business, international business, corporate banking business and custodian and trust business. Through this partnership, the Bank benefited from HSBC's advanced management philosophy and experience. In return, HSBC enjoyed excellent investment returns from the Bank's continued business growth, enhancing further the mutually beneficial relationship between the two banks.

The senior management of HSBC and the Bank maintains close communication through periodic meetings and conferences between the Chairmen and the Chief Executive Officers. This enabled timely and efficient resolution of any issues that arose in the partnership, thereby increasing the depth of cooperation between the two banks.

The Bank's strategy is being "a first-class public bank group focused on wealth management services by means of international expansion and by providing comprehensive services". The Bank continues to focus on the principles of “initiating wisdom” and “establishing policy” while it actively promotes bilateral communication and sharing of technical expertise with HSBC. Both banks have shared among themselves experience in domestic and international banking sector through technical training, staff exchange program and expertise consultation.

Both banks have achieved stellar performances from the cooperation in the following lines of business.

Credit card business:

There had been excellent momentum in the development of the jointly-managed credit card business. As at the end of 2008, the aggregate number of credit cards issued exceeded 10 million and the annual spending on these credit cards reached approximately RMB100 billion. Key performance indicators, such as average level of card spending and total receivables ranked among the top in the industry. This also helped to maintain our lead in other service quality and profitability indicators in the industry.

Corporate banking business:

Both banks jointly provided financial services and credit facilities to reputable global corporations for the purposes of projects that promote environmentally friendly goal. In addition, the second phase of corporate banking system integration between the two banks was completed and commenced operation during the year. This enabled HSBC to make third party enquiries of the Bank’s domestic customers, and allowed the Bank to make third party enquiries of HSBC’s customers in 11 Asia Pacific countries.

Custodian and trust business:

Both banks cooperated to cross-sell their custodian and trust products and services to potential customers to achieve mutual growth and expansion in the scale of business operations. These include international custody and trust services, insurance and pension funds services.

As a result of the HSBC’s confidence in the future development of our Bank and the prospects of the ongoing cooperation between the two banks, despite the lock-up period of the 9.115 billion H shares in the Bank held by HSBC expired on 18 August 2008, both parties reiterated their plans to adopt a long-term approach towards the strategic cooperation between the two banks and HSBC's stance in not reducing its shareholding in the Bank. Going forward, both banks will continue to strengthen communication and coordination to enhance the effectiveness of technical cooperation, and seek to broaden the scope of cooperation in the various lines of business. Through continued collaboration and cooperation with HSBC, the Bank seeks to raise its management standards to international levels. In 2009, both banks will focus on strengthening their co-operation in the following aspects:

— To further increase technical cooperation. Both parties plan to start a new senior management skills development programme in 2009 which will be structured along the different lines of business. Through communication and exchange with HSBC's corresponding lines of business, the Bank seeks to learn from HSBC's strategic development, operational framework, and business innovation and risk management expertise to optimise the utilisation of resources. In addition, the Bank will continue to strengthen technical cooperation with HSBC in other areas, to seek to learn from the experience of HSBC and to share the training resources of the Bank and its knowledge of the China domestic market so as to achieve synergies and mutually beneficial development.

— To expedite the process of incorporating a credit card company. The Pacific credit card centre is the most significant joint venture between the two banks and has achieved excellent results to-date. In accordance with the spirit of the credit card cooperation agreement and within the existing legal and policy framework, both parties will, on the basis of mutual benefits, expedite the negotiations in relation to the incorporation of a credit card company so as to achieve the early establishment of a joint venture credit card company.

— To continue in-depth cooperation in key business areas to achieve ground-breaking future development. As a priority, both banks will focus on strengthening cooperation in the areas of international banking business, corporate banking business, custodian and trust business and cross selling to key clients, integration of systems and RMB international clearing services.

— To promote cooperation in comprehensive operation at an appropriate time. In line with the industry trends and the Bank's strategic development goal of achieving comprehensive operation, both banks will continue to explore the potential of cooperation in the area of comprehensive operation and to conduct cooperation in areas such as securities business, insurance and pension fund business within the legal and regulatory framework.

10 OUTLOOK FOR 2009

The global financial crisis is expected to continue to affect the global economy in 2009. The domestic banking industry is also expected to face major challenges with the proliferation of the financial crisis and the macroeconomic downturn. These challenges resulted in greater barrier to achieve rapid development as demand for banking services decline. In addition, as a result of the worsening of the operating conditions for general enterprises, the non-performing assets of the Bank are experiencing an upward pressure which poses significant challenges to the Bank's risk management. The Bank's interest margin is also expected to decline significantly due to increased competition from other banks and financial institutions and the decline in interest rates. At the same time, the Chinese Government has also adopted active fiscal policies to stimulate economic growth. These policies include measures to suitably relax its monetary policy and provide financial support for economic development, all of which will help to create a greater development environment and new opportunities for the Bank.

The Group will continue its development strategy of being "a first-class public bank group focused on wealth management services by means of international expansion and by providing comprehensive services" in the face of future challenges and opportunities by focusing on the following aspects:

1. To fully utilise the Bank's advantage in corporate banking in an environment where the government policy is to stimulate domestic demand and economic growth to raise its overall competitiveness in corporate banking and whole-heartedly devote itself to achieving rapid and healthy growth in corporate banking business.

2. To continue to further optimise its business structure, customer structure and regional structure to enhance the development of its retail banking, fee-based, wealth management and treasury businesses and thus continue to push ahead with the Bank's strategic realignment.

3. To continue to promote innovation in the areas of business management, organisational structure and services so as to further optimise the business process and product development mechanism, raise service quality, continuously improve core competitiveness and actively expand market share.

4. To strengthen micro management while diligently control operating costs and raising operating efficiency.

5. To avoid large declines in interest margins through pro-active asset and liability management.

6. To realise synergies within the Group, to strengthen the operating capability of subsidiaries and to ensure healthy growth of overseas branches.

7. To further strengthen risk management and thus maintain the quality of assets.

“Live in peace, realize your dream”. “Yuanmengbao” allows the bank to offer RMB loans for eligible lenders. The scheme is applicable to various kinds of general commercial residence, such as integrated commercial loan of housing provident fund and commercial housing loan. Special features of the scheme includes reduced loan cost and fees, guaranteed security of transaction capital, diverse package of loan products, flexible mode of mortgage repayment, convenient and simple after sales services.

交銀圆梦宝

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Details of Changes in Share Capital and Shareholdings of Substantial Shareholders

1 DETAILS OF CHANGES IN SHARE CAPITAL

As at 31 December 2008, the Bank has a total of 498,078 shareholders with 450,252 shareholders holding A shares and 47,826 shareholders holding H shares.

	1 January 2008		Increase/decrease during the Reporting Period					31 December 2008	
	Number of shares	Percentage %	Issue of new shares	Bonus shares	Shares transferred from the surplus reserve	Others	Sub-total	Number of shares	Percentage %
1. Shares subject to restriction on sales									
1. State-owned shares	13,181,997,864	26.91	–	–	–	(3,207,015,216)	(3,207,015,216)	9,974,982,648	20.36
2. Shares held by state–owned entities	7,329,448,924	14.96	–	–	–	(7,329,448,924)	(7,329,448,924)	–	–
3. Shares held by other domestic investors									
Comprising:									
Shares held by domestic legal persons	3,161,532,477	6.45	–	–	–	(3,161,532,477)	(3,161,532,477)	–	–
Shares held by domestic natural persons	–	–	–	–	–	–	–	–	–
4. Shares held by foreign investors									
Comprising:									
Shares held by foreign legal persons	23,690,961	0.05	–	–	–	(23,690,961)	(23,690,961)	–	–
Shares held by foreign natural persons	–	–	–	–	–	–	–	–	–
2. Shares not subject to restriction on sales									
1. RMB–denominated ordinary shares	2,233,245,341	4.56	–	–	–	13,721,687,578	13,721,687,578	15,954,932,919	32.57
2. Domestically listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas listed foreign shares	23,064,468,136	47.07	–	–	–	–	–	23,064,468,136	47.07
4. Others	–	–	–	–	–	–	–	–	–
3. Total	48,994,383,703	100.00	–	–	–	–	–	48,994,383,703	100.00

Note: The 13.243 billion and 0.478 billion of A shares which were subject to restriction on sales became tradable on 16 May 2008 and 17 November 2008, respectively. For more details, please refer to the announcements made by the Bank in the *China Securities Journal*, *Shanghai Securities News*, *Securities Times*, the Shanghai Stock Exchange's website (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 14 May 2008 and 12 November 2008, respectively.

2 PARTICULARS OF SHAREHOLDINGS OF THE TOP 10 SHAREHOLDERS SUBJECT TO RESTRICTION ON SALES AND DETAILS OF RESTRICTIONS

As at 31 December 2008, there is only one shareholder of the Bank which shares are subject to restriction on sales and particulars of its shareholdings are as follows:

Name of shareholder	Number of shares subject to restriction on sales	Date on which shares become tradable	Number of tradable shares	Restrictions
Ministry of Finance of the People's Republic of China	9,974,982,648	16 May 2010	9,974,982,648	36 months

3 PARTICULARS OF SHAREHOLDINGS OF THE TOP 10 SHAREHOLDERS AND TOP 10 SHAREHOLDERS NOT SUBJECT TO RESTRICTION ON SALES (ACCORDING TO THE BANK'S REGISTER OF SHAREHOLDERS MAINTAINED AT ITS SHARE REGISTRAR)

(1) Shareholding of the top 10 shareholders

Name of shareholder	Nature of shareholder	Shareholding percentage (%)	Number of shares held	Number of shares subject to restrictions on sales	Number of pledged or frozen shares[1]
Ministry of Finance of the People's Republic of China[2]	State	26.48%	12,974,982,648	9,974,982,648	Nil
HKSCC Nominees Limited[3]	Foreign-owned	21.94%	10,748,914,462	–	
The Hongkong and Shanghai Banking Corporation Limited[4]	Foreign-owned	18.60%	9,115,002,580	–	Nil
Capital Airports Holding (Group) Company	State-owned	2.01%	985,447,500	–	
State Grid Asset Management Company Limited	State-owned	0.92%	451,445,193	–	
Shanghai Tobacco (Group) Corp.	State-owned	0.77%	378,328,046	–	
Yunnan Hongta Group Co. Ltd.	State-owned	0.71%	346,787,979	–	
Sinopec Finance Company Limited	Domestic legal person	0.62%	304,320,800	–	
Huaneng Capital Services Corporation Ltd.	State-owned	0.55%	268,501,276	–	
Daqing Petroleum Administration Bureau	State-owned	0.48%	233,151,118	–	

Notes:

1. Unless otherwise stated, the Bank is not aware of any circumstances where shares held by the above shareholders have been frozen or pledged, or of the existence of any connected relationship between the above shareholders.
2. On 25 March 2008, the Bank received the "Notification in respect of Change in Shareholding" signed by the Ministry of Finance and Huijin, respectively. Huijin has transferred 3,000,000,000 H shares of the Bank to the Ministry of Finance. Upon completion of the share transfer, the Ministry of Finance holds a total of 12,974,982,648 shares (including 3,000,000,000 H shares) of the Bank, which represents 26.48% of the total issued share capital of the Bank. Please refer to the announcement made by the Bank on 26 March 2008 in *China Securities Journal*, *Shanghai Securities News* and *Securities Times* as well as the websites of the Shanghai Stock Exchange (www.sse.com.cn) and the Hong Kong Stock Exchange (www.hkexnews.hk) for details.
3. This represents the aggregate number of H shares held by HKSCC Nominees Limited as nominees for all institutional and individual investors that maintain an account with it as at 31 December 2008. According to the information provided by SSF, SSF held 5,555,555,556 H shares of the Bank as at 31 December 2008, representing 11.34% of the total issued share capital of the Bank and all these shares have been transferred to HKSCC Nominees Limited. (similarly hereinafter)
4. According to the Bank's register of shareholders kept by Computershare Hong Kong Investor Services Limited, HSBC held 9,115,002,580 H shares of the Bank as at 31 December 2008. In addition, according to the disclosure of interests forms filed with the Hong Kong Stock Exchange by HSBC Holdings plc, HSBC beneficially held 9,312,013,580 H shares of the Bank, and, through its subsidiaries, indirectly held 69,470,681 H shares of the Bank as at 31 December 2008. In aggregate, HSBC held 9,381,484,261 H shares of the Bank, representing 19.15% of the total issued share capital of the Bank. Please refer to "5 Substantial Shareholders and Holders of Interests or Short Positions Required to be Disclosed under Divisions 2 and 3 of Part XV of the Hong Kong Securities and Futures Ordinance" set out below for details. (similarly hereinafter)

(2) Shareholding of the top 10 shareholders not subject to restriction on sales

Name of shareholder	Number of shares held	Shareholding percentage	Type of shares
HKSCC Nominees Limited	10,748,914,462	21.94%	H shares
The Hongkong and Shanghai Banking Corporation Limited	9,115,002,580	18.60%	H shares
Ministry of Finance of the People's Republic of China	3,000,000,000	6.12%	H shares
Capital Airports Holding (Group) Company	985,447,500	2.01%	A shares
State Grid Asset Management Company Limited	451,445,193	0.92%	A shares
Shanghai Tobacco (Group) Corp.	378,328,046	0.77%	A shares
Yunnan Hongta Group Co. Ltd.	346,787,979	0.71%	A shares
Sinopec Finance Company Limited	304,320,800	0.62%	A shares
Huaneng Capital Services Corporation Ltd.	268,501,276	0.55%	A shares
Daqing Petroleum Administration Bureau	233,151,118	0.48%	A shares
Connected relations or concerted actions among the above shareholders:	Save and except that certain of the above shareholders are managed by the same legal person, the Bank is not aware of any connected relations among the above shareholders or whether they are parties acting in concert.		

4 SHAREHOLDERS HOLDING 5% OR MORE OF THE ISSUED SHARE CAPITAL OF THE BANK

(1) Ministry of Finance

Ministry of Finance, being a constituent part of the State Council, is responsible for various matters which includes overseeing the country's fiscal revenue, expenditure and taxation policies. Its address is No.3, Nansanxiang, Sanlihe, Xi Cheng District, Beijing.

As at 31 December 2008, Ministry of Finance held 12,974,982,648 shares of the Bank, representing 26.48% of the total issued share capital of the Bank. These shares were neither pledged nor subject to any disputes.

(2) HSBC

HSBC is a wholly-owned subsidiary of HSBC Holdings plc. It is principally engaged in providing banking and financial services. HSBC is one of the founding members of HSBC Holding plc, the largest licensed bank in Hong Kong and one of the note-issuing banks in Hong Kong. In 2004, the Bank introduced HSBC as its a strategic investor, with the aim of promoting the Group's business development, after having considered HSBC's wealth of experience in risk management, capital management, product innovation and financing business. Its address is 1 Queen's Road Central, Hong Kong.

As at 31 December 2008, HSBC, directly and indirectly through its subsidiaries, held 9,381,484,261 H shares of the Bank, representing 19.15% of the total issued share capital of the Bank. These shares were neither pledged nor subject to any disputes.

(3) SSF

SSF is a government agency on the ministerial level directly under the State Council. It is responsible for the management and operation of the national social security fund, the management of the proceeds from the reduction of state-owned shares. It also manages funds disbursed by Ministry of Finance and funds raised from various sources, as well as the selection and engagement of asset management companies to manage the fund assets for asset protection and capital appreciation purposes. Its address is South Block, Fenghui Times Mansion, No. 11 Fenghuiyuan, Xicheng District, Beijing.

As at 31 December 2008, SSF held 5,555,555,556 H shares of the Bank, representing 11.34% of the total issued share capital of the Bank. These shares were transferred to HKSCC Nominees Limited. These shares were neither pledged nor subject to any disputes.

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

As at 31 December 2008, the substantial shareholders and other persons (other than the directors, supervisors and chief executive of the Bank) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the Hong Kong Securities and Futures Ordinance (the "**SFO**") are as follows:

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

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

Notes:

1. Long positions held other than through equity derivatives.
2. HSBC holds 62.14% interest in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to be interested in the H shares which are held by Hang Seng Bank Limited.
   Hang Seng Bank Limited is deemed to be interested in the 69,470,681 H shares held by its wholly-owned subsidiaries. Such 69,470,681 H shares represent the aggregate of 7,139,564 H shares indirectly held by Hang Seng Bank (Bahamas) Limited, 61,532,838 H shares directly held by Hang Seng Bank Trustee International Limited and 798,279 H shares directly held by Hang Seng Bank (Trustee) Limited.
   Hang Seng Bank (Bahamas) Limited is deemed to be interested in the 7,139,564 H shares held by its wholly-owned subsidiary, Hang Seng Bank Trustee (Bahamas) Limited.
3. HSBC is wholly-owned by HSBC Asia Holdings BV. HSBC Asia Holdings BV is in turn wholly-owned by HSBC Asia Holdings (UK). HSBC Asia Holdings (UK) is in turn wholly-owned by HSBC Holdings BV. HSBC Holdings BV is in turn wholly-owned by HSBC Finance (Netherlands). Pursuant to the SFO, each of HSBC Asia Holdings BV, HSBC Asia Holdings (UK), HSBC Holdings BV and HSBC Finance (Netherlands) is deemed to be interested in the 9,381,484,261 H shares which HSBC has an interest.
4. HSBC Financial Products (France) holds 309,481 H shares. HSBC France owns an equity interest of 58.25% in HSBC Financial Products (France), while the remaining 41.75% equity interest is held by HSBC Securities (France) SA, a wholly-owned subsidiary of HSBC France. HSBC France is in turn wholly-owned by HSBC Bank plc. Pursuant to the SFO, each of HSBC Securities (France) SA, HSBC France and HSBC Bank plc is deemed to be interested in the 309,481 H shares held by HSBC Financial Products (France).
5. HSBC Finance (Netherlands) and HSBC Bank plc are wholly-owned by HSBC Holdings plc. Pursuant to Notes 2, 3, and 4 and the SFO, HSBC Holdings plc is deemed to be interested in the 9,381,484,261 H shares which HSBC has an interest and the 309,481 H shares which HSBC Bank plc has an interest.

Except as disclosed above, no person or corporation was recorded in the register required to be kept under Section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO as at 31 December 2008.

Directors, Supervisors, Senior Management and Staff

1 PROFILE OF DIRECTORS

Mr. Hu Huaibang, aged 53, Professor, joined the Bank in September 2008 and serves as Chairman of the Board of Directors and Executive Director of the Bank. Mr. Hu was chairman of the supervisory board of China Investment Corp from September 2007 to September 2008, director-general of supervisory boards office and the commissioner of disciplinary inspection of the China Banking Regulatory Commission from July 2003 to September 2007, deputy governor of PBOC Chengdu Branch, governor of PBOC Xi'an Branch and director-general of the State Administration of Foreign Exchange Shannxi Branch concurrently from June 2000 to July 2003, the executive vice president and president of Financial and Banking Institute of China from March 1997 to June 2000. Mr. Hu worked at Shaanxi Institute of Finance and Economics from August 1982 to March 1997, serving in several positions including the lecturer and deputy dean of the logistics department, chief of academic affairs division, assistant president (and chief of academic affairs division concurrently) and vice president. Mr. Hu received his doctorate in economics from Shannxi Institute of Finance and Economics in 1999. Mr. Hu has been Chairman of the Board of Directors and Executive Director of the Bank since September 2008.

Mr. Li Jun, aged 52, joined the Bank in October 1990 and serves as Vice Chairman of the Board of Directors and President of the Bank. Mr. Li Jun has served in several positions in the Bank, including Vice Chairman of the Board of Directors and President of the Bank since September 2006, Vice President of the Bank since November 2000, Controller General of the Bank from April 1998 to April 2001 and Vice President and President of the Bank's Wuhan Branch from October 1990 to April 1998. Mr. Li received a master's degree in economics from Huazhong University of Science and Technology in 1995. Mr. Li has served as Executive Director of the Bank since June 2000.

Mr. Peng Chun, aged 47, joined the Bank in January 1994 and serves as Executive Director and Vice President of the Bank. Mr. Peng has served as Vice President of the Bank since September 2004. He also served as Assistant to President of the Bank from September 2001 to September 2004, Vice President and President of Urumqi Branch, President of Nanning Branch and President of Guangzhou Branch from 1994 to 2001. Mr. Peng received a master's degree in economics in Graduate School of PBOC in 1986. Mr. Peng has served as Executive Director of the Bank since August 2005.

Mr. Qian Wenhui, aged 47, joined the Bank in October 2004 and serves as Executive Director and Vice President of the Bank. Mr. Qian has served as Vice President of the Bank since October 2004 (also as President of Shanghai Branch from July 2005 to November 2006 concurrently). Before joining the Bank, Mr. Qian worked in China Construction Bank ("CCB"), served successively as director of the General Office of the Asset and Liability Management Committee of CCB and concurrently vice president of CCB Shanghai Branch, director of the General Office of the Asset and Liability Management Committee of CCB and director of System Reform Office and vice president of Shanghai Branch concurrently, general manager of Asset and Liability Management Department, general manger of Asset and Liability Management Department and concurrently director of Restructuring Office. Mr. Qian received a MBA degree from Shanghai University of Finance and Economics in 1998. Mr. Qian has served as Executive Director of the Bank since August 2007.

Mr. Zhang Jixiang, aged 55, joined the Bank in September 2004 and serves as Non-executive Director and Secretary of the Board of Directors. Before joining the Bank, Mr. Zhang served as Inspector of the General Department of the Ministry of Finance from January 2003 to September 2004, Deputy Director of the Basic Construction Department and Deputy Director of the General Department of the Ministry of Finance from July 1998 to January 2003, Deputy Director and Director of the Foreign Studies Office of the Research Institute, Deputy Director and Director of the Property Ownership Department, and Director of Asset Appraisal Centre of the State Administration of State-Owned Assets from October 1990 to July 1998. Mr. Zhang received a Ph.D. degree in economics from the Chinese Academy of Social Sciences in 1989. He is also qualified as a Chinese Certified Public Accountant and a PRC Certified Public Valuer. Mr. Zhang has served as Executive Director of the Bank and Secretary of the Board of Directors since September 2004 and as Non-executive Director and Secretary of the Board of Directors since August 2007.

Mr. Hu Huating, aged 51, serves as Non-executive Director of the Bank. Mr. Hu served in several positions in the Ministry of Finance from December 1978 to September 2004, including Director of the Bureau for Retired Officials, Deputy Director of Economic Construction Department, Assistant Inspector of the Basic Construction Department, Chief of the General Department, Chief of the Second Investment Division, Chief of the Second Division of Off-Budget Capital Management of the General Planning Department, Deputy Chief of the Special Tax Division of the Agricultural Taxation Department, Deputy Chief of the Central Division of the Department of Off-Budget Capital Management, Deputy Chief of the Salary and Pricing Division of the General Planning Department and Secretary of General Office etc. Mr. Hu graduated from Hubei University of Finance and Economics in 1978. Mr. Hu has served as Non-executive Director of the Bank since September 2004.

Mr. Qian Hongyi, aged 57, serves as Non-executive Director of the Bank. Mr. Qian served successively as the Deputy Inspection Commissioner and Inspection Commissioner of the Commission's Office in Jiangsu Province under the Ministry of Finance from March 1995 to July 2008. He was the Chief of the Financial Division for Industrial and Transportation Enterprise under the Department of Finance of Jiangsu Province from September 1989 to March 1995, a clerk, a section member and the Deputy Chief of the No. 1 Taxation Administration Section, the Section Chief of the Profit Tax Payment Supervision Section, and the Division Chief of the No. 4 and No. 2 Taxation Administration Divisions of Jiangsu Province from August 1979 to August 1989. From December 1972 to July 1979, he severed as a special taxation administer of Taxation Bureau of Jurong County, Jiangsu Province. Mr. Qian graduated from the Department of Finance of Renmin University of China in 1986. Mr. Qian has served as Non-executive Director of the Bank since August 2008.

Mr. Peter Wong Tung Shun, aged 57, serves as Non-executive Director of the Bank. He currently also holds the post of general manager of HSBC Group, the substantial shareholder of the Bank, and an executive director of HSBC. In addition, Mr. Wong is also currently vice chairman of HSBC Bank (China) Company Limited, chairman of Hubei Suizhou Zengdu HSBC Rural Bank Company Limited, chairman of Chongqing Dazu HSBC Rural Bank Company Limited, chairman of Fujian Yongan HSBC Rural Bank Company Limited, chairman of HSBC Insurance (Asia-Pacific) Holdings Limited and HSBC Life (International) Ltd.. He is also a director of Hang Seng Bank Limited and Ping An Insurance (Group) Company of China, Ltd. and serves as Vice Chairman of the Hong Kong Association of Banks. Before joining HSBC in April 2005, Mr. Wong worked in Citibank and Standard Chartered Bank. Mr. Wong received a master's degree in marketing and finance and another master's degree in computer science from the Indiana University of USA in 1976 and 1979 respectively. Mr. Wong has served as Non-executive Director of the Bank since August 2005.

Ms. Laura M. Cha, aged 59, recipient of the Silver Bauhinia Star, serves as Non-executive Director of the Bank. Ms. Cha is currently a member of the Executive Council of the Hong Kong Special Administrative Region, Vice Chairman of the International Consultant Committee of the China Securities Regulatory Commission, non-executive director and vice chairman of HSBC, the substantial shareholder of the Bank. She is also independent non-executive director of Hong Kong Exchanges and Clearing Limited, Johnson Electric Holdings Limited, Baoshan Iron & Steel Co., Ltd., Tata Consultancy Service Limited and China Telecom Corporation Limited. Ms. Cha served as the Vice President of the China Securities Regulatory Commission from February 2001 to September 2004, Assistant Director and Senior Director of Corporate Finance, Executive Director and the Vice President of Securities and Futures Commission of Hong Kong from 1991 to 2001. Ms. Cha received a doctorate degree in laws from Santa Clara University, United States in 1982. Ms. Cha has served as Non-executive Director of the Bank since June 2006.

Mr. Ji Guoqiang, aged 43, serves as Non-executive Director of the Bank. Mr. Ji has been a member of the Third Youth Federation of the Central Government Departments since 2005, and also is a non-executive director of Beijing-Shanghai Express Railway Co., Ltd. and Bohai Industrial Investment Fund Management Co., Ltd.. Mr. Ji worked for the Office of the Ministry of Finance from August 1988 to March 2003, successively as a clerk, a section member, a secretary of the Minister's Secretariat (being deputy section chief) and a secretary to the Minister's Office (being section chief, deputy division chief, and division chief successively). Since March 2003, Mr. Ji has worked for SSF, the substantial shareholder of the Bank, successively as a secretary of the General Office (being division chief), the Deputy Director of the Equity and Assets Department, the Deputy Secretary of the Council's Party Committee, the Deputy Director of the Personnel Department (in charge of the day-to-day work), and the Director of the Equity and Assets Department (the Industrial Investment Division). Mr. Ji received a master's degree in public administration from Peking University in 2007. Mr. Ji has served as Non-executive Director of the Bank since August 2008.

Mr. Lei Jun, aged 39, serves as Non-executive Director of the Bank. Mr. Lei has been the General Manager of the Capital Operation Department of Capital Airports Holding Company from June 2005 and is also currently a director of Goldstate Securities Co., Ltd., China Minzu Securities Co., Ltd. and Suzhou Guoxin Group Co., Ltd.. He served as the general manager of the Mergers and Acquisitions Department of Goldstate Securities Co., Ltd. from January 2005 to June 2005, the general director of the Management and Innovation Department of Shanghai Baosteel Group Corporation from October 2003 to January 2005, the deputy chief of Fortune Trust & Investment Co., Ltd. from June 1998 to October 2003 and the deputy chief of the Enterprise Management Section of Shanghai Baosteel Group Corporation from April 1995 to June 1998. Mr. Lei received a MBA degree from the University of Hong Kong in 2000. Mr. Lei has served as Non-executive Director of the Bank since August 2008.

Mr. Yang Fenglin, aged 39, serves as Non-executive Director of the Bank. Mr. Yang currently also works with Yingda Securities Co., Ltd.. Mr. Yang served as the deputy chief of the Financial Asset Management Department of State Grid Corporation of China from September 2006 to November 2008, and assistant to president of Pengrun Investment Limited from February 2006 to September 2006. He served as general manager of the Fund Management Department of Coastal Greenland Limited from October 2005 to February 2006, executive director, deputy general manager, and managing director of Guotai Junan Securities (Hong Kong) Ltd. from July 2002 to August 2005, deputy administrative manager of the board of supervisors and deputy general manager of the International Business Department of Guotai Junan Securities Co., Ltd. from July 1999 to July 2002 and deputy manager of Investment Bank Department and Deputy Manager of Research and Development Department of Guotai Junan Securities Co., Ltd. from April 1997 to July 1999. Mr. Yang received a Ph.D. in engineering from Xi'an Jiaotong University in 1997. Mr. Yang has served as Non-executive Director of the Bank since August 2007.

Mr. Xie Qingjian, aged 65, retired in June 2008 and serves as Independent Non-executive Director of the Bank. Mr. Xie has served in several positions in the People's Bank of China's system for many years, including a Counselor of The People's Bank of China, Governor of Nanjing Branch, Deputy Governor of Shanghai Branch, Deputy Governor and Governor of Zhejiang Branch, and Governor of Wenzhou Branch, etc. Mr. Xie received a master's degree in economics from Zhejiang University in 1998. Mr. Xie has served as Independent Non-executive Director of the Bank since September 2004.

Mr. Ian R. Wilson, aged 68, a member of the Order of the British Empire, Justice of Peace, serves as Independent Non-executive Director of the Bank. Mr. Wilson retired from Standard Chartered Bank in 1998. Before that, Mr. Wilson served as general manager of Standard Chartered Bank for the regions of Hong Kong, China and Northeast Asia from 1994 to 1998. During his stay in Hong Kong, Mr. Wilson served as a member of the Exchange Fund Advisory Committee, the Land Fund Advisory Committee and the Banking Advisory Committee. He also served as Chairman of Hong Kong Interbank Clearing Limited, Chairman of the Hong Kong Association of Banks, First Deputy Chairman of Hong Kong Securities Clearing Company Limited, a member of the Hong Kong Community Chest and a member of the Board of Directors of Hong Kong Red Cross. Mr. Wilson acted as the general manager for the regions of Middle East and South Asia from 1992 to 1994, and chief executive officer of Hong Kong Branch from 1990 to 1992. Mr. Wilson has served as Independent Non-executive Director of the Bank since September 2004.

Mr. Thomas Joseph Manning, aged 53, serves as Independent Non-executive Director of the Bank. Mr. Manning currently serves as CEO of Indachin Ltd. and chairman of Next Horizon Ltd. (formerly China Business Outsourcing Ltd.), and independent non-executive director of Asia Info Holdings Inc., and GOME Electrical Appliances Holding Limited. Mr. Manning once served as chairman and CEO of Cap Gemini Ernst & Young Asia Pacific, as well as global managing director responsible for strategy & technology consulting. Mr. Manning also served as a director of Bain & Company and member of the firm's China Board. Mr. Manning received a bachelor's degree from East Asian Studies of Harvard University and received a MBA degree from Stanford University in 1979. Mr. Manning has served as Independent Non-executive Director of the Bank since September 2004.

Mr. Chen Qingtai, aged 71, a researcher, serves as Independent Non-executive Director of the Bank. He is also a researcher at the Development Research Centre of the State Council, a professor and a tutor for students studying for doctorate degrees at Tsinghua University and Nankai University. Mr. Chen had been holding important posts in State General Economic Administration Department and had successively served as Secretary of the Communist Party Committee and concurrently the Deputy Director of the Development Research Centre of the State Council, and the Deputy Director of the State Economic and Trade Commission. Mr. Chen graduated from the Dynamics Department of Tsinghua University in 1962 and has served as Independent Non-executive Director of the Bank since April 2005.

Mr. Eric Li Ka-cheung, aged 55, a Justice of Peace, an Officer of the Most Excellent Order of the British Empire (OBE) and a recipient of the Gold Bauhinia Star, serves as Independent Non-executive Director of the Bank. Mr. Li currently acts as the senior partner of Li, Tang, Chen & Co and an independent non-executive director of Hang Seng Bank Limited, China Resources Enterprise Limited, Transport International Holdings Ltd., Roadshow Holdings Limited, SmarTone Telecommunications Holdings Limited, Wong's International (Holdings) Ltd. and Meadville Holdings Limited and a non-executive director of Sun Hung Kai Properties Limited. Mr. Li is a fellow of the Hong Kong Institute of Certified Public Accountants (Practising), a fellow of The Institute of Chartered Accountants in England and Wales and a fellow of CPA Australia. Mr. Li is concurrently a fellow of The Institute of Chartered Secretaries and Administrators and Hong Kong Institute of Chartered Secretaries. Mr. Li received a Bachelor of Arts (Economics) Honours degree from the University of Manchester and an Honorary Doctorate from the University of Manchester and the Hong Kong Baptist University. Mr. Li has served as Independent Non-executive Director of the Bank since January 2007.

Mr. Gu Mingchao, aged 65, serves as Independent Non-executive Director of the Bank and retired in May 2007. Mr. Gu is also an independent non-executive director of Kasen International Holdings Limited. Mr. Gu served as the chairman of the board of supervisors of China Galaxy Securities Company Limited, Bank of Communications and Agricultural Bank of China, designated by the State Council from July 2000 to April 2007, vice president and executive director of Import and Export Bank of China from June 1994 to June 2000. Mr. Gu graduated from Shanghai Institute of Foreign Trade in 1968. Mr. Gu has served as Independent Non-executive Director of the Bank since August 2007.

2 PROFILE OF SUPERVISORS

Mr. Hua Qingshan, aged 56, joined the Bank in June 2007 and serves as Chairman of the Board of Supervisors of the Bank. Mr. Hua served as vice president of Bank of China from December 1998 to June 2007, non-executive director of BOC Hong Kong (Holdings) Limited (one of the subsidiaries of Bank of China and listed on the Hong Kong Stock Exchange) from June 2002 to June 2007, executive director of Bank of China from August 2004 to June 2007 and assistant to the president of Bank of China from May 1994 to December 1998. Mr. Hua received a master's degree in engineering from the University of Hunan in 1996. Mr. Hua has served as Chairman of the Board of Supervisors of the Bank since August 2007.

Mr. Guan Zhenyi, aged 43, serves as Supervisor of the Bank. Mr. Guan has served as the chief of the Investment Management Division of Shanghai Tobacco (Group) Corporation since July 2006. He served as deputy chief of the Financial and Pricing Division of and the deputy chief of the Investment Management Division of Shanghai Tobacco (Group) Corporation from January 2003 to July 2006, assistant to chief of Three Asset Management Department of Shanghai Tobacco (Group) Corporation and concurrently the manager of the Haiyan Commercial Building, deputy director and concurrently manager of the Haiyan Commercial Building from September 2000 to January 2003. Mr. Guan received a university degree in economic management from Shanghai Branch of PLA Nanjing Institution of Politics in 2002. Mr. Guan has served as Supervisor of the Bank since August 2007.

Mr. Yang Fajia, aged 53, serves as Supervisor of the Bank. Mr. Yang has served as the general manager of Yunnan Hongta Group Ltd. since January 2003. He served as the deputy general Manager of Yunnan Hongta Group Ltd. from September 1993 to January 2003. Mr. Yang received a university degree in electromechanical science from China University of Mining & Technology in 1980. Mr. Yang has served as Supervisor of the Bank since August 2007.

Ms. Wang Lisheng, aged 62, serves as Supervisor of the Bank. Ms. Wang has served as the consultant of China Petrochemical Corporation since October 2008. From September 2006 to November 2008, she served as chairlady of each of Sinopec Kantons International Limited and Sinopec Kantons Holdings Limited. She also served as the chairlady of the Board of Supervisors of Sinopec Finance Co., Ltd. from May 2002 and September 2008 and the deputy financial director of China Petrochemical Co., Ltd. from September 2000 to September 2007. Ms. Wang received a bachelor's degree in finance from Shanghai University of Finance and Economics in 1969. Ms. Wang has served as Supervisor of the Bank since August 2007.

Mr. Li Jin, aged 42, serves as Supervisor of the Bank. Mr. Li has served as the deputy general manager of Huaneng Capital Service Co., Ltd. since September 2006. He served as the president of Alltrust Insurance Company of China Limited from January 2005 to September 2006, deputy general manager and general manager of Huaneng Capital Service Co., Ltd. from December 2000 to January 2005. Mr. Li received a master's degree in economics of money and banking from the Financial Research Institution of the Head Office of PBOC in 1989. Mr. Li has served as Supervisor of the Bank since August 2007.

Mr. Yan Hong, aged 42, serves as Supervisor of the Bank. Since March 2008, Mr. Yan has served as the chief accountant of Daqing Oilfield Company Limited and Daqing Petroleum Administration Bureau. Mr. Yan served as the deputy chief accountant and head of Financial Assets Department, and later the chief accountant of Daqing Oilfield Company Limited from March 2002 to March 2008. He served as the deputy head and later head of Financial Assets Department of Daqing Oilfield Company Limited from May 2000 to March 2002. He served as the deputy chief accountant of Wells Repairing Branch of Daqing Oilfield Company Limited from January 1999 to May 2000. Mr. Yan joined Drilling Company III of Daqing Petroleum Administrative Bureau as an intern, and later as the accountant of the Assembly and Construction Team and the deputy head of the Finance Division from July 1989 to January 1999. Mr. Yan received a MBA degree from Shanghai University of Finance & Economics in 2003 and obtained a MBA degree from China Europe International Business School in 2008. Mr. Yan has served as Supervisor of the Bank since August 2008.

Ms. Zheng Li, aged 73, Certified Public Accountant and Certified Internal Auditor, serves as External Supervisor of the Bank. Ms. Zheng served as President of the Association of Internal Auditors of China from June 1997 to July 2005, a member on the CPPCC Ninth National Committee from January 1998 to January 2003, audit commissioner of the State Council from November 1998 to March 2001, a member of the board of supervisors of the State Development Bank from November 1996 to October 1998 and Deputy Auditor General at the National Audit Office from July 1987 to November 1996. Ms. Zheng received a university degree from the Moscow Institute of Finance of the former Soviet Union in 1959. Ms. Zheng has served as External Supervisor of the Bank since August 2007.

Mr. Jiang Zuqi, aged 68, serves as External Supervisor of the Bank. Mr. Jiang served as the chairman of the board of supervisors designated by the State Council to key state-owned financial institutions from June 2000 to August 2005, including the Chairman of the Board of Supervisors of the Bank from June 2000 to August 2003 and the chairman of the board of supervisors of Export-Import Bank of China from August 2003 to August 2005. He also served as vice chairman of the board and vice president of the Bank of China from August 1995 to June 2000 and concurrently as director of the Hong Kong and Macau Affairs Management Department of Bank of China from August 1997 to February 1999. Mr. Jiang received a bachelor's degree in finance and accounting from the Commerce and Economics Faculty of the Beijing Institute of Business in 1966. Mr. Jiang has served as External Supervisor of the Bank since August 2007.

Ms. Liu Sha, aged 53, joined the Bank in November 2004 and serves as Employee Representative Supervisor of the Bank. Since September 2005, she has served as the General Manager of Audit Department of the Bank's Northern China Region. Ms. Liu served as the Secretary of the Board of Supervisors from March 2005 to August 2005, a full-time Supervisor (ranking as an assisting role of department or equivalent) of the Bank (one of the key state-owned financial institutions) from August 2003 to October 2004 and a full-time supervisor (ranking successively as a leading role of division or equivalent and an assisting role of department or equivalent) of China Galaxy Securities Company Limited (one of the key state-owned financial institutions) from August 2000 to July 2003. Ms. Liu graduated from the Finance Faculty of Dongbei University of Finance and Economics in 1979. Ms. Liu has served as Employee Representative Supervisor of the Bank since November 2004.

Ms. Chen Qing, aged 48, joined the Bank in November 2004 and serves as Employee Representative Supervisor of the Bank. Since March 2005, Ms. Chen has served as Director of the General Office of the Board of Supervisors of the Bank. In November 2004, Ms. Chen served as a full-time Supervisor (ranking as an assisting role of department or equivalent) of the Bank (one of the key state-owned financial institutions) and was elected as an Employee Representative Supervisor of the Bank in the same month. Ms. Chen served as a full time supervisor (ranking as a leading role of department or equivalent) of Agricultural Bank of China (one of the key state-owned financial institutions) from August 2003 to October 2004, deputy division chief, division chief and a full-time supervisor (ranking as a leading role of division or equivalent) of the board of supervisors of Bank of China (one of the key state-owned financial institutions), from May 2000 to July 2003. Ms. Chen received a bachelor's degree in economics from Renmin University of China in 1984. Ms. Chen has served as Employee Representative Supervisor of the Bank since November 2004.

Mr. Shuai Shi, aged 40, joined the Bank in November 1992 and serves as Employee Representative Supervisor of the Bank. Since December 2007, Mr. Shuai has served as the General Manager of the Staff Department and the Deputy Director of System Trade Union of the Bank (since January 2008). Mr. Shuai served as the Acting Vice President of the Bank's Huhhot Branch from July 2006 to December 2007, Senior Manager of the Personal Finance Department of the Bank's Shanghai Branch from January 2001 to July 2006 (currently the assistant (nominal) to the Director of the Financial Office of Inner Mongolia Autonomous Region from February 2004 to February 2006). Mr. Shuai received his college diploma in economic administration from China People's Liberation Army Artillery Administration College in June 2007. Mr. Shuai has served as Employee Representative Supervisor of the Bank since August 2008.

3 PROFILE OF SENIOR MANAGEMENT

Mr. Li Jun (Please refer to details in "Profile of Directors")

Mr. Peng Chun (Please refer to details in "Profile of Directors")

Mr. Qian Wenhui (Please refer to details in "Profile of Directors")

Mr. Wang Bin, aged 50, joined the Bank in January 2000 and serves as Vice President of the Bank. Mr. Wang successively served as Vice President and President of the Bank's Beijing Branch, President of Tianjin Branch. From December 1993 to January 2000, Mr. Wang served in several positions in the Agricultural Development Bank of China, including director of the Preparation Office, vice director and director of General Office, vice president and president of Jiangxi Branch. Mr. Wang received a Ph.D. in economics from Nankai University in 2005.

Ms. Yu Yali, aged 51, joined the Bank in February 1993 and serves as Vice President and CFO of the Bank. Ms. Yu has served as CFO of the Bank since August 2004 and as General Manager of the Financial Accounting Department and Budgetary Finance Department of the Bank from December 1999 to August 2004. Ms. Yu served in various positions in the Bank from February 1993 to December 1999, including Chief of Financial Accounting Department and Vice President of the Bank's Zhengzhou Branch and Deputy General Manager of Financial Accounting Department of Headquarters of the Bank. Ms. Yu received a MBA degree from Fudan University in 2006.

Mr. Shou Meisheng, aged 52, joined the Bank in January 1992 and serves as Secretary of Discipline Committee and Chief of Bank Industry Labor Union. Mr. Shou served as the General Manager of Human Resources Department of the Bank from May 2005 to December 2007, the General Manager of International Banking Department of the Bank from June 1998 to May 2005 and concurrently the General Manager of the Bank's Dalian Branch from January 2002 to March 2004. He served as the Deputy General Manager of International Banking Department and concurrently the acting Deputy General Manager of Overseas Institutions Administration Department of the Bank from November 1996 to June 1998, the Deputy General Manager of the Comprehensive Planning Department of the Bank from November 1995 to November 1996, Vice President and President of Shaoxing Branch from January 1992 to November 1995. Mr. Shou received a Ph.D. in economics from Dongbei University of Finance & Economics in 2006.

Mr. Dicky Peter Yip, aged 62, joined the Bank in April 2005 and serves as Vice President of the Bank. Mr. Yip served as chief executive of China Business of HSBC from January 2003 to April 2005. From June 1988 to January 2003, Mr. Yip served in several positions in HSBC, including senior general manager of Personal Banking Service, senior manager of Retail Business, assistant to general manager of Retail Business, assistant to general manager of Personal Banking Service and concurrently deputy chief of Personal Wealth Management. Mr. Yip received a MBA degree from the University of Hong Kong.

Mr. Hou Weidong, aged 49, joined the Bank in April 2002 and serves as Chief Information Officer of the Bank. Mr. Hou served as General Manager of the Information Technology Department of the Bank from November 2002 to August 2004, Deputy General Manager of Computer Department of the Bank from April 2002 to November 2002. Before joining the Bank, he served as deputy general manager of Technology Security Department and general manager of Data Center of Industrial and Commercial Bank of China from November 1998 to April 2002. Mr. Hou received a Ph.D. degree in economics from Peking University in 2003.

Mr. Yang Dongping, aged 52, joined the Bank in May 1989 and serves as Chief Risk Management Officer of the Bank. Mr. Yang served as Deputy General Manager and General Manager of the Bank's Hong Kong Branch from September 2003 to September 2007. He served in several positions in the Bank's Wuhan Branch, including Deputy Manager of Securities Business Department, Deputy Chief and Chief of Credit Division, General Manager of International Business Department, Vice President and President from May 1989 to September 2003. Mr. Yang received a master's degree in international finance from Wuhan University in 1998.

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

1. Changes in Directors

1) On 25 September 2008, pursuant to the resolutions passed at the ninth meeting of the Fifth Session of the Board of Directors, Mr. Hu Huaibang was appointed as Executive Director and the Chairman of the Board of Directors. Mr Hu's appointment was approved by CBRC. Former Chairman of the Board of Directors and Non-executive Director, Mr. Jiang Chaoliang, resigned from his posts due to his transfer to China Development Bank.

2) On 26 August 2008, pursuant to the eighth meeting of the Fifth Session of the Board of Directors, Mr. Qian Hongyi, Mr. Ji Guoqiang and Mr. Lei Jun were appointed as Non-executive Directors. Appointment of Mr. Qian Hongyi, Mr. Ji Guoqiang and Mr. Lei Jun were approved by CBRC.

3) On 31 July 2008, Mr. Li Keping and Mr. Gao Shiqing resigned from their posts as Non-executive Directors and members of relevant Board Committees, respectively, due to their busy schedules.

4) On 13 March 2008, Mr. Timothy D. Dattels resigned from his post as Independent Non-executive Director and member of the Audit Committee due to personal reasons.

2. Changes in Supervisors

1) On 26 August 2008, pursuant to the resolution passed at the fifth meeting of the Fifth Session of the Board of Supervisors, Mr. Yan Hong was appointed as Supervisor of the Bank.

2) On 21 August 2008, Mr. Li Jun resigned from his post as an Employee Representative Supervisor of the Bank due to his transfer to Bank of Communications Financial Leasing Co., Ltd.. Mr. Shuai Shi was appointed as the Employee Representative Supervisor of the Bank in the Labor Union's general election.

3) On 6 June 2008, Mr Liu Qiang resigned from his post as Supervisor of the Bank and member of the Supervision Committee due to the change of his assignment.

3. Changes in senior management

There were no changes to the senior management of the Bank during the Reporting Period.

5 HUMAN RESOURCE MANAGEMENT

1. Number, qualification and education attainment of staff

As at 31 December 2008, the Bank had a total of 77,734 employees, representing an increase of 14.18% compared to the beginning of the year. Among these employees, 601 (representing 0.77% of the total number of employees) possess advance professional and technical qualification; 16,370 (representing 21.06% of the total number of employees) possess intermediate professional and technical qualification and 20,711 (representing 26.64% of the total number of employees) possess basic professional and technical qualification. The table below shows the education attainment level of the Bank's employees:

Education Attainment Level	Number of employees	Proportion (%)
Doctor	105	0.13
Postgraduate	2,851	3.67
Undergraduate	37,381	48.09
College	27,604	35.51
Junior college	5,117	6.58
High school and below	4,676	6.02
Total	**77,734**	**100.00**

2. Human resource management

In view of the Bank's strategic objectives, the Bank has further standardised its organisation structure and job designation. Combining the development trends of the market and the industry, the Bank dynamically adjusts its organisation structure, enhancing the connection between the organisation structure, job designations and strategic objectives. The Bank maintains its existing "Pyramid Management Structure" and continues to improve management efficiency. By establishing a job designation model which promotes bilateral management and professional development, the Bank broadens the opportunities for its employees' career development. The allocation of staff highlights the output efficiency, while the full support of operating restructuring, construction of new grid point, standardisation of the Bank's business processes and the promotion of a comprehensive risk management help to provide a strong human resource support for the rapid development of the business.

3. Remuneration policy

The Bank continued to promote the Bank's unique remuneration and management system of "taking the position as the basis, with the labour market price as target, unifying the job value and performance value"; and continues to design a remuneration system and a management policy that have the characteristics of "a unified approach and standardised operation management throughout the Bank" as the main focus of employees' benefits system.

4. Performance management

The Bank continued to use balanced scorecard and target table as the means to optimise the performance management model. The Bank improved its performance management approach at each level by highlighting the strategic conduction and linkages, clarifying the internal logic of the system and strengthening the examination of the guiding role of the allocation of resources. Revolving around the adjustments to the Bank's organisational structure, following the promotion of globalisation and comprehensive strategy, actively seeking assessment methods and paths for the whole Bank that streamline and differentiate, the Bank will be able to lead the development in the refinement of performance management.

"Oto Fortune" adheres to "share the benefits, enrich your wealth with virtue" as its brand principle and provides high-quality, extensive and professional personal integrated financial services to high net-worth customers. The experienced and professional advisors of the Oto Fortune Centers offer a series of services, namely financial analysis, financial planning, investment consultation, asset management etc.

Report of the Board of Directors

The Board of Directors hereby present its report and the audited consolidated financial statements of the Bank and its subsidiaries for the financial year ended 31 December 2008.

1 PRINCIPAL ACTIVITIES

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

2 RESULTS AND PROFIT DISTRIBUTION

The operating results of the Group for the year are set out in the consolidated profit and loss account on page 139.

The Board of Directors recommends payment of a final dividend of RMB0.10 per share (RMB0.20 per share for the full year of 2008 and RMB0.15 per share for 2007), totaling RMB4.899 billion (RMB9.798 billion for the full year of 2008 and RMB7.349 billion for 2007) for the financial year ended 31 December 2008. The distribution proposal will be implemented upon approval at the 2008 Annual General Meeting.

3 RESERVES

Changes in the Group's reserves during the year are set out in the consolidated statement of changes in equity on page 142.

As at 31 December 2008, pursuant to the relevant laws and regulations, the Bank's distributable reserves amounted to approximately RMB23.334 billion (2007: RMB19.791 billion), and the distributable reserves before the distribution of interim dividends amounted to approximately RMB28.233 billion.

4 CHARITABLE DONATIONS

Charitable donations made by the Group during 2008 amounted to RMB215.19 million (2007: RMB148.51 million).

5 FIXED ASSETS

Changes in the Group's fixed assets during the year are set out in note 22 to the consolidated financial statements.

6 SHARE CAPITAL

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

During 2008 and for the period up to the latest practicable date prior to the issue of this annual report, the Bank has maintained the minimum prescribed public float as agreed with the Hong Kong Stock Exchange, which is 18.33% of the total issued share capital of the Bank, based on the information that is publicly available to the Bank and within the knowledge of the Directors.

7 FINANCIAL SUMMARY

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

8 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and senior management of the Bank are set out on pages 80 to 91 of this Annual Report. The Bank has received an annual confirmation of independence from each of the Independent Non-executive Directors, and consider each of them to be independent.

9 BOARD COMMITTEES

Please refer to the corporate governance report on page 109 to 128 of this Annual Report.

10 DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

11 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS OF THE BANK

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

12 INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the business of the Bank, to which the Bank or any of its subsidiaries was a party and in which a Director or Supervisor of the Bank had a material interest, whether directly or indirectly, subsisted during the Reporting Period.

13 INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESS OF THE BANK

During the Reporting Period, none of the Directors or Supervisors of the Bank had any interest in any business that competes or is likely to compete, whether directly or indirectly, with the Bank's business.

14 INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Number of shares held at the beginning of the year	Change during the year	Number of shares held at the end of the year	Reason for the change
Yang Dongping	Chief Risk Management Officer	75,000	0	75,000	–

Save as disclosed above, as at 31 December 2008, none of the Bank's Directors, Supervisors, Chief Executive and their associates had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO), or which were required to be entered in the register pursuant to section 352 of the SFO, or which were required, pursuant to Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Hong Kong Listing Rules, to be notified to the Bank and the Hong Kong Stock Exchange.

15 INTERESTS OF SUBSTANTIAL SHAREHOLDERS

Interests of substantial shareholders of the Bank are set out in the section headed "Details of Changes in Share Capital and Shareholdings of Substantial Shareholders" in this Annual Report.

16 PURCHASE, SALE AND REDEMPTION OF SHARES OF THE BANK

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

17 PRE-EMPTIVE RIGHTS AND SHARE OPTION ARRANGEMENTS

There are no mandatory provisions regarding pre-emptive rights in the Bank's Articles of Association and under the relevant laws and regulations of the People's Republic of China and currently, the Bank does not have any arrangement with respect to share option.

18 ISSUE OF SHARES AND DEBENTURES

To further enhance the Bank's strength in its operations, optimise its equity-debt structure and support its continuous business development, the Bank issued bonds in an aggregate principal amount of RMB3 billion in Hong Kong on 29 July 2008. The bonds have a denomination of RMB10,000 each with a 2-year term bearing a fixed interest rate of 3.25% annually with half-yearly interest payment. The bonds were issued to institutional and retail investors in Hong Kong and institutional investors overseas. The proceeds raised have been used for granting loans, as general working capital and for general corporate purposes.

Except for the issue of RMB-denominated bonds mentioned above, the Bank and its subsidiaries did not issue, redeem or grant any convertible securities, options, warrants or other similar rights during the Reporting Period. Details of the subordinated bonds issued by the Group in 2004 and 2007 are set out in note 30 to the consolidated financial statements.

19 SHARE APPRECIATION RIGHTS

As part of the incentive scheme, the Bank has granted to its members of senior management share appreciation rights. The issuance of share appreciation rights does not involve any issue of new shares or dilution of existing shareholders' equity. Details of the share appreciation rights are set out in note 13 to the consolidated financial statements.

For the year ended 31 December 2008, the Bank has not granted to its Directors or Supervisors any rights to subscribe for the shares or debentures of the Bank or any of its subsidiaries, nor have any such rights to subscribe for the above shares or debentures been exercised by them. The Bank and its subsidiaries also have not entered into any agreement or arrangement to enable the Directors or Supervisors to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

20 MAJOR CUSTOMERS

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

21 CONTINUING CONNECTED TRANSACTIONS

As HSBC is a substantial shareholder of the Bank, HSBC and its subsidiaries and associates (together the "**HSBC Group**") are connected persons of the Bank. The Bank and its subsidiaries have regularly engaged in various kinds of transactions in the normal course of banking business with the HSBC Group, such as sales and purchases of bonds, sales and purchases of money market instruments, foreign currency transactions, swap and option transactions, factoring and third party loans guaranteed by the HSBC Group.

To regulate the abovementioned on-going transactions, the Bank has entered into the an interbank transactions master agreement (the "**Interbank Transactions Master Agreement**") with HSBC on 1 June 2005, pursuant to which the HSBC Group and the Bank agree to conduct inter-bank transactions in accordance with applicable normal inter-bank practices and on normal commercial terms. The Interbank Transactions Master Agreement has expired on 31 May 2008. Accordingly, the Bank and HSBC agreed to extend the term of the Interbank Transactions Master Agreement on the same terms and conditions for a period of three years on 16 June 2008 so that they can continue their existing continuing connected transactions under the Interbank Transactions Master Agreement (the "**Continuing Connected Transactions**").

There is no fixed price or rate for the transactions under the Interbank Transactions Master Agreement. However, the parties agreed to apply the prevailing market prices or rates normally used by independent counterparties to the particular type of transactions concerned when transacting pursuant to the Interbank Transactions Master Agreement. The factoring transactions and guarantee transactions under the Interbank Transactions Master Agreement were exempt transactions under the Hong Kong Listing Rules. The factoring transactions are exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33(3) of the Hong Kong Listing Rules whereas the guarantees provided by the HSBC Group to the Bank's branches for third party loans are exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Hong Kong Listing Rules.

The sales and purchases of bonds, sales and purchases of money market instruments, foreign currency transactions and swap and option transactions entered into between the Group and the HSBC Group under the Interbank Transactions Master Agreement ("**Non-exempt Continuing Connected Transactions**") constitutes non-exempt continuing connected transactions under Rule 14A.34 of the Hong Kong Listing Rules and are only subject to the reporting and announcement requirements and are exempt from the independent shareholders' approval requirement under the Hong Kong Listing Rules. For the financial year ended 31 December 2008, the Non-exempt Continuing Connected Transactions have not exceeded their respective caps:

(1) Each of the realised gains, realised losses and unrealised gains or losses (as the case may be) arising from the Non-exempt Continuing Connected Transactions have not exceeded RMB1,569 million.

(2) The fair value of the derivative financial instruments entered into with the HSBC Group (whether recorded as assets or liabilities) under the Non-exempt Continuing Connected Transactions has not exceeded RMB10,415 million.

Upon careful review of the Continuing Connected Transactions, each of the Independent Non-executive Director considers that the Continuing Connected Transactions were entered into by the Group:

(1) in the ordinary and usual course of its business;

(2) on normal commercial terms or on terms no less favorable to the Bank than terms available to or from independent third parties; and

(3) in accordance with the Interbank Transactions Master Agreement and on terms that are fair and reasonable and in the interests of the shareholders of the Bank as a whole.

The auditors, PricewaterhouseCoopers, has issued a letter to the Board of Directors of the Bank confirming that:

(1) the Continuing Connected Transactions have received the approval of the Board of Directors of the Bank;

(2) the Continuing Connected Transactions were in accordance with the pricing policies of the Bank;

(3) the Continuing Connected Transactions have been entered into in accordance with the Interbank Transactions Master Agreement; and

(4) the Non-exempt Continuing Connected Transactions have not exceeded their respective annual caps set out above for the financial year ended 31 December 2008.

In respect of the Continuing Connected Transactions, the Bank has complied with the disclosure requirements under the Hong Kong Listing Rules in force from time to time.

During the Reporting Period, the transactions between the Bank and HSBC are set out below:

(1) As at 31 December 2008, the aggregate balance of deposits placed in and loans to HSBC by the Bank amounted to RMB799 million, and the interest income arising from these deposits and loans were approximately RMB94 million for 2008.

(2) As at 31 December 2008, the aggregate balance of deposits placed in and loans to the Bank amounted to RMB389 million, and the interest expenses arising from these deposits and loans were approximately RMB88 million in 2008.

The transactions set out in items (1) and (2) above are exempt from complying with the reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(1) or Rule 14A.65(4) of the Hong Kong Listing Rules.

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

The work performed by the Audit Committee and Personnel and Compensation Committee of the Bank are set out in the section headed "10.3 Board of Directors and Board Committees — 4. Board Committees" in the Corporate Governance Report of this Annual Report.

23 AUDITORS

The Group's financial statements for 2008 prepared in accordance with China Accounting Standards were audited by Deloitte Touche Tohmatsu, whereas the Group's financial statements for 2008 prepared in accordance with International Financial Reporting Standards were audited by PricewaterhouseCoopers.

By order of the Board
Chairman

Hu Huaibang
18 March 2009, Shenzhen, PRC

Report of the Board of Supervisors

In 2008, in accordance with the requirements of the Company Law and the Articles of Association, the Board of Supervisors monitored the Board of Directors' execution of the resolutions approved at Shareholders' General Meetings and decisions made within the Board of Directors' scope of power. The Board of Supervisors also monitored the senior management's implementation of resolutions approved at Shareholders' General Meetings and Board of Directors' meetings, and the business activities that were carried out within their scope of power. At the same time, the Board of Supervisors also continuously intensified its supervision on the performance of duties by the Board of Directors and senior management while earnestly taking its responsibility to investigate the Bank's financial condition, internal control and risk management to safeguard the interests of the Bank and its shareholders.

1. MAIN RESPONSIBILITIES OF THE BOARD OF SUPERVISORS

During the Reporting Period, the Board of Supervisors fulfilled its supervisory responsibilities through meetings of the Board of Supervisors, performance interviews, seminars, performance of duties surveys and assessments, and also by attending Shareholders' General Meetings, Board of Directors meetings, special committees' meetings and senior management's meetings. It also heard work progress reports, inspected on risk management and internal control, reviewed important information such as periodic reports as well as analysed internal and external investigation reports. All these reflected that the Board of Supervisors has performed its duties in an effective and diligent manner with emphasis on the focal point and significant issues.

(1) Organisational restructuring. To implement CBRC's "Findings on the Re-evaluation of the Performance of Duties by the Board of Directors and Senior Management of the Bank of Communications", the Board of Supervisors integrated its work with the restructuring of its internal organisational structure. The Board of Supervisors established the Work Performance Supervision Committee to focus on monitoring the performance of duties by the Board of Directors, the senior management and their members. The Nomination Committee is responsible for the annual performance appraisal of Supervisors, in addition to its original duties of formulating the procedures and criteria for the appointment of the Supervisors as well as initial assessment of the eligibility and qualifications of the persons nominated. The original Supervision Committee has been restructured to form the Financial and Internal Control Supervision Committee and is responsible for monitoring the Bank's financial condition, internal control and risk management.

(2) Refinement of policies of the Board of Supervisors. Immediately after the organisational restructuring of the Board of Supervisors, it formulated the "Code of Practice of the Work Performance Supervision Committee" and revised the "Code of Practice of the Nomination

Committee" and "Code of Practice of the Financial and Internal Control Supervision Committee". It has also formulated the "Plan for the Supervision of the Board of Directors, Senior Management and their Members" to formalise its scope of supervision on the performance of duties.

(3) Inspection of risk management and internal control of selected subsidiaries and branches. The Board of Supervisors conducted on-site inspections of selected branches and two subsidiaries, namely, BOCOM International Trust and BOCOM Leasing and compiled the "Report on Areas of Concern in the Management of Subsidiaries" covering areas including centralisation of management at the Head Office, the strength of support to subsidiaries' development, the subsidiaries' strategic positioning, corporate governance, business procedures and corporate culture. In addition, the Board of Supervisors compiled the "Credit Risk Management Inspection Report" covering areas such as credit risk exposure, Group customer management, exposure to "high-polluting, energy-intensive, high value real estate and surplus production capacity" industries and segregation of risk management in credit business. The Board of Supervisors also compiled the "Internal Control Procedure Inspection Report" covering compliance principles, compliance systems and mechanisms, internal control measures, business process flow and motivation and restraint mechanisms.

(4) Completion of appraisal on performance of duties. The Work Performance Supervision Committee compiled the "2008 Comments on the Performance of Duties by the Board of Directors and Senior Management of the Board of Supervisors" and, with respect to individual Directors and senior management, "Comments on the 2008 Performance of Duties Appraisal" by interviewing each of the Directors and senior management, sending out "Form of Evaluation on Board of Directors' Operation" to representatives of regulatory authorities presented at the Board of Directors' meetings, and integrating individual performance of duties reports and daily monitoring by the Board of Supervisors. In addition, the "Report regarding the Performance of Mr. Jiang Chaoliang as the Chairman of the Board of Directors" was submitted to CBRC in accordance with the requirements of the "Guidance on Corporate Governance of Joint Stock Commercial Banks".

(5) Completion of performance of duties survey. The Board of Supervisors compiled the "Summary Report on 2007 Directors and Senior Management Performance of Duties Survey" after performing a survey on the Directors and senior management and integrating the results of the performance of duties reports, so as to provide relevant recommendations to the Board of Directors and senior management. The Summary Report was submitted to CBRC.

(6) Monitor the quality of work of the auditors. The Board of Supervisors reviewed the periodic reports and focused on the discrepancies between the audited balance of the impairment allowance for corporate loan and that provided by the Bank, paid close attention to quality of collaterals and management of foreign currency investments as well as the degree of representativeness and coverage of samples selected. The Board of Supervisors requested the auditors to prudently assess the value of various assets considering the domestic and global economic and financial trends. The Board of Supervisors also monitored the status of implementation of internal controls recommendations from the auditors.

(7) Submission of the "Recommendations for Management" and "Report on Supervision Recommendations" to the Board of Directors and senior management. The Board of Supervisors prepared the "Proposal on Reasonable Use of Resources by Auditors" with regards to the overlapping of branches and relatively low proportion of branches with poor internal control ratings being selected as samples by the two audit firms, requesting the auditors to fully adopt the risk-based audit approach. In addition, the Board of Supervisors also compiled the "Proposal for Standardisation of A Shares and H Shares Information Disclosures" in response to the problem of A shares and H shares information disclosure discrepancies in data such as deposit and loan balances. The Board of Supervisors proposed to enhance the "Cai Wu Tong" account access procedures and enhance daily monitoring and management in response to the potential weakness in anti-money laundering measures in the "Cai Wu Tong" internet banking product. At the same time, the Board of Supervisors also ensured that any industry-wide problems encountered were reported to the regulatory authorities in a timely manner.

The work performed by the Board of Supervisors is highly valued by the Board of Directors and senior management and it is also actively seeking further improvements. At the same time, the Board of Supervisors has continued to develop, established an internal appraisal system, and investigated into the performance of duties by the Supervisors through the completion of the survey on annual performance to encourage Supervisors to diligently perform their duties and continuously improve their supervisory work.

2. MEETINGS OF THE BOARD OF SUPERVISORS

During the Reporting Period, the Board of Supervisors held four meetings from 18 March to 19 March 2008, 28 April to 29 April 2008, 29 October to 30 October 2008 and on 26 August 2008, respectively. During the Reporting Period, the Board of Supervisors listened to the briefings by senior management with regards to the retail business, credit risk management and "Report on the Status of Rectification on Internal Audit Issues from the First Quarter to the Third Quarter and 2007 CBRC Inspection Issues", reported the "Summary Report on 2007 Directors and Senior Management Performance of Duties Survey" and the results for the re-election of Employee Representative Supervisors. The meetings approved 20 resolutions, including the "2007 Report of the Board of Supervisors" submitted to the Shareholders' General Meeting.

(1) With respect to the development of the organisational structure, the Board of Supervisors considered and approved five resolutions including "Increasing the Number of Member of the Supervision Committee of the Board of Supervisors", "Increasing the Number of Member of the Nomination Committee", "Appointment of Mr. Yan Hong as a Supervisor" and "Restructuring of the Board of Supervisors' Organisational Structure" and "Establishment of a Work Performance Supervision Committee of the Board of Supervisors".

(2) With respect to the development of internal policy, the Board of Supervisors considered and approved seven resolutions including "Code of Practice of the Work Performance Supervision Committee", "Code of Practice of the Nomination Committee", "Code of Practice of the Financial and Internal Control Supervision Committee", "Plan for the Supervision of the Board of Directors, Senior Management and their Members", "2008 Work Plan of the Board of Supervisors", "2008 Work Plan of the Nomination Committee of the Board of Supervisors" and "2008 Work Plan of the Supervision Committee of the Board of Supervisors".

(3) With respect to the review of financials, the Board of Supervisors considered and approved seven resolutions including the "2007 Annual Report", the "2007 Audited Consolidated Financial Statements", the "2007 Profit Distribution Plan", the "2008 First Quarter Results Announcement", the "2008 Interim Report" and the "2008 Interim Profit Distribution Plan" and the "2008 Third Quarter Results Announcement".

Summary of Supervisors' attendance at meetings of the Board of Supervisors

Supervisors	Number of attendance in person	Attendance rate (%)
Hua Qingshan	4/4	100
Zheng Li	3/4	75
Jiang Zuqi	4/4	100
Guan Zhengyi	3/4	75
Yang Fajia	1/4	25
Wang Lisheng	3/4	75
Li Jin	2/4	50
Yan Hong	1/2[2]	50
Liu Sha	4/4	100
Chen Qing	4/4	100
Shuai Shi	1/2[2]	50
Liu Qiang	2/2[1]	100
Li Jun	2/2[1]	100
Average attendance rate		**77%**

Notes:

1. Mr. Liu Qiang and Mr. Li Jun have ceased to be Supervisors of the Bank since 6 June 2008 and 21 August 2008, respectively.
2. Mr. Shuai Shi and Mr. Yan Hong have been appointed as Supervisors of the Bank on 21 August 2008 and 26 August 2008, respectively.

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

(1) Truthfulness of the financial statements

The financial statements present, truly and fairly, the financial position and operating results of the Bank.

(2) Use of proceeds

During the Reporting Period, the Bank issued RMB3 billion of RMB-denominated bonds in Hong Kong. The proceeds raised was used to extend new loans and to supplement to the Bank's working capital, which is consistent with the Bank's commitment.

(3) Acquisition and disposal of assets

During the Reporting Period, pursuant to the approval from relevant regulatory authorities, the Bank made a contribution of RMB36.6 million to Dayi Bocom Xingmin Rural Bank incorporated in Dayi County, Sichuan Province as a promoter, representing 61% of Dayi Bocom Xingmin Rural Bank's registered capital. The Board of Supervisors is not aware of any acquisition or disposal of assets by the Bank which may damage the interest of the shareholders or which may cause a loss to the Bank's assets.

(4) Related party transactions

During the Reporting Period, the Board of Supervisors is not aware of the entering into of any related party transactions by the Bank that would damage the interest of the Bank or its shareholders.

(5) The Auditors' report

PricewaterhouseCoopers and Deloitte Touche Tohmatsu CPA Ltd. have issued the unqualified audit report on the financial position and operating results of the Bank in 2008 and the Board of Supervisors has no objection to the report.

(6) Execution of resolutions approved at the Shareholders' General Meeting

The Board of Supervisors has no objection to the various resolutions proposed to the Shareholders' General Meeting and considered the Board of Directors to have effectively executed the resolutions approved at the Shareholders' General Meetings during the Reporting Period.

(7) Implementation of information disclosure

The Bank welcomes the supervision by the society. During the Reporting Period, the Bank disclosed 4 periodic results in Shanghai and in Hong Kong in compliance with applicable laws and made 30 and 29 announcements regarding corporate governance, significant investment plans and other price sensitive information in compliance with the Listing Rules of the Shanghai Stock Exchange and the Hong Kong Listing Rules, respectively. The Board of Supervisors has not identified any false records, misleading statements or material omissions.

(8) Internal control

During the Reporting Period, the Bank accorded great importance to the development of its internal control policies and strived to enhance and improve its internal control. The Board of Supervisors has no objection to the “2008 Annual Internal Control Self-Appraisal Report” of the Board of Directors.

(9) Fulfilling corporate social responsibilities

The Bank has fulfilled its corporate social responsibilities during the Reporting Period by promoting its ”Green Credit” Project, increasing loans made to key sectors such as national construction projects, small and medium-sized enterprises, “the agricultural sector, rural areas and rural residents” and disaster reconstruction projects. The Bank also reduced loans to industries categorised as “high-polluting, energy-intensive, resources-dependent” and surplus production capacity sectors. The combined efforts of the entire Bank helped to overcome natural disasters and to successfully provided financial services during the 2008 Beijing Olympics. The Board of Supervisors has no objection to the “2008 Corporate Social Responsibility Report”.

(10) Compliance with applicable laws

During the Reporting Period, the Board of Directors and senior management have diligently performed their duties and the Board of Supervisors has not identified any instances of breach of laws or regulations which would damage the interests of the Bank or its shareholders.

The Bank has earnestly implemented macro-control policy in its operating management and made decisions in compliance with applicable laws. It calmly responded to the challenges arising from the ice and snow storm, the Wenchuan earthquake on 12 May 2008 and the global financial crisis, remained focus on its strategic goals and forged ahead with its strategic restructuring. In addition, the Bank has refined its management, improved its business foundation, increased its operating efficiency, strengthened its internal controls and risk management, and effectively controlled the progress of various projects. As such, there have been steady improvements in operating management, thereby achieving favourable operating results. However, there are still areas to be improved such as the communication and delivery of strategic goals, the execution of internal control policies at various branches and subsidiaries and overall risk management capability. The Bank will follow the trends of development, continue to accelerate its restructuring and innovation, continue to improve management and service quality while forging ahead with its strategic goal of being “a first-class public bank group focused on wealth management services by means of international expansion and by providing comprehensive services”.

Corporate Governance Report

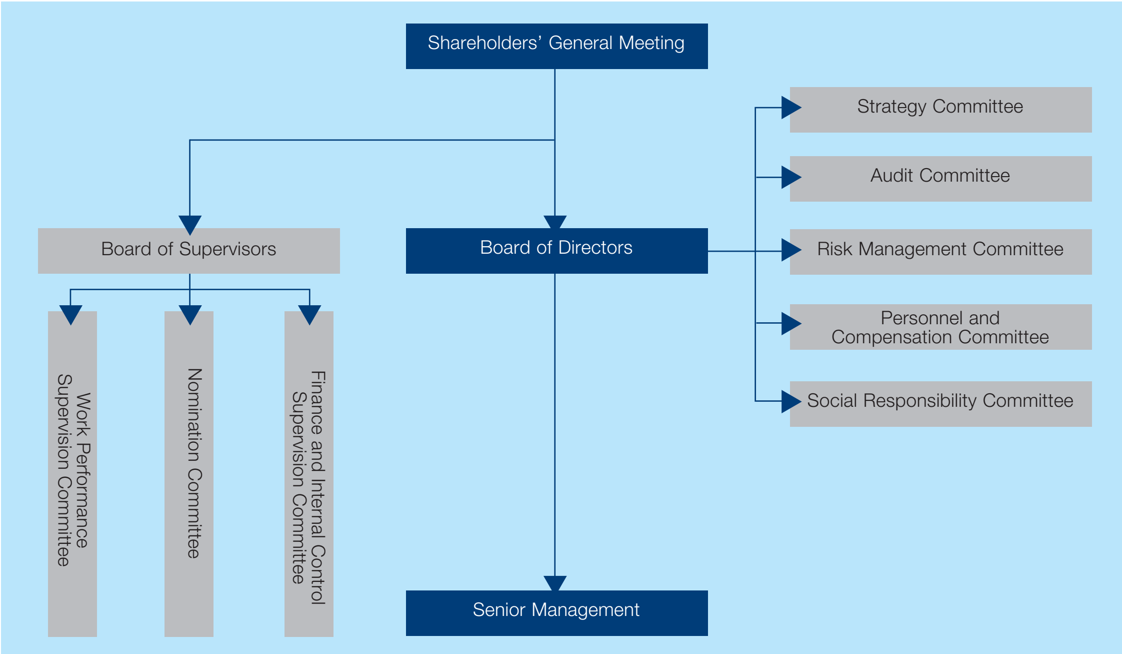
The Bank has diligently devoted its efforts towards developing a corporate governance system that both conforms to international standards and applicable to the Bank's unique circumstances. To protect the legal interests of shareholders and other stakeholders, the Bank strictly complied with relevant laws and regulations such as the Company Law as well as rules and guidelines promulgated by domestic and overseas regulatory authorities in 2008. The Bank has also continuously strengthened the development of its corporate governance policies and optimised the operational mechanism of the "Shareholders' General Meeting, Board of Directors, Board of Supervisors and Senior Management". In addition, the Bank strengthened its risk management and internal controls and proactively responded to the global financial crisis. Further, the Bank strengthened its customer relationship management and continued to improve information disclosure transparency. The Bank has also actively fulfilled its corporate social responsibilities and further promoted the development of its corporate culture and brand name.

Based on the centralised deployment by CSRC, the Bank implemented in-depth the special corporate governance activities in 2008 and did not note any funds held by substantial shareholders. At the same time, the Bank also further enhanced its risk management efforts. The Bank also received positive assessment from CBRC with respect to its on-site examination of the performance of duties by the Bank's Board of Directors and senior management. Attributable from its significant improvements and spectacular results in the area of corporate governance, the Bank also received various major awards such as the "Best Corporate Governance Enterprise in China" awarded by the *The Asset Magazine* in 2008.

The Directors of the Bank confirm that the Bank has fully complied with the principles and code provisions stipulated in Appendix 14 to the Hong Kong Listing Rules — the Code of Corporate Governance Practices for the year ended 31 December 2008, and essentially complied with most of the recommended best practices of the Code of Corporate Governance Practices.

10.1 CORPORATE GOVERNANCE STRUCTURE

The Bank has currently established an effectively balanced and independently operated corporate governance structure that clearly defines the rights and obligations of the Shareholders' General Meeting, Board of Directors, Board of Supervisors and senior management (refer to chart below).



In addition, in view of further clarifying the obligations and authority of the Shareholders' General Meeting, the Board of Directors and senior management and to standardised the scientific operations of corporate governance activities, the Bank has also constituted the "Trial Measures for the Delegation of Authority to the Board of Directors by the Shareholders' General Meeting", the "Administrative Measures for the Delegation of Authority to the President by the Board of Directors" and the "Trial Measures for the Delegation of Authority to the President by the Board of Directors", which define the scope and limit of authorisation granted thereby providing clear guidance on the granting of the authority.

10.2 SHAREHOLDERS AND SHAREHOLDERS' GENERAL MEETING

As at 31 December 2008, the total issued share capital of the Bank was 48.994 billion shares, consisting of 25.930 billion A shares and 23.064 billion H shares. The top four shareholders of the Bank are the Ministry of Finance, HSBC, SSF and Capital Airports Holding (Group) Company, which held an aggregate of 58.98% of the Bank's total issued shares, of which, the largest shareholder, the Ministry of Finance, held 26.48% and the second largest shareholder, HSBC, held 19.15%. The Bank is independent from all shareholders in terms of its business, employees, assets, institutions and finance, and possesses a completely independent business and autonomous operations.

The Shareholders' General Meeting is the highest authority of the Bank. During the Reporting Period, the Bank held one Shareholders' General Meeting, being the 2007 Annual General Meeting held in Shanghai on 6 June 2008. Each individual matter was proposed as a separate resolution at the Annual General Meeting and was resolved by vote. The poll results announcement of the 2007 Annual General Meeting had been published on the official websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Bank, respectively, and had also been published on the *China Securities Journal*, the *Shanghai Securities News* and the *Securities Times*. All of the resolutions passed at the 2007 Annual General Meeting had been fully executed.

10.3 BOARD OF DIRECTORS AND BOARD COMMITTEES

1. Responsibilities of the Board of Directors

The Board of Directors is the strategic decision making body of the Bank and is responsible to the Shareholders' General Meeting. Its main responsibilities includes, but not limited to, convening Shareholders' General Meetings and presenting work reports at such meetings, executing the resolutions passed at the Shareholders' General Meeting, deciding on the Bank's operating plans and investment proposals, reviewing the work report of the President and monitoring the President's work.

2. Composition of the Board of Directors

The Board of Directors currently comprises 18 members, including four Executive Directors, Mr. Hu Huaibang, Mr. Li Jun, Mr. Peng Chun and Mr. Qian Wenhui; eight Non-executive Directors, Mr. Zhang Jixiang, Mr. Hu Huating, Mr. Qian Hongyi, Mr. Wong Tung Shun, Peter, Ms. Laura M. Cha, Mr. Ji Guoqiang, Mr. Lei Jun and Mr. Yang Fenglin; and six Independent Non-executive Directors, Mr. Xie Qingjian, Mr. Ian Ramsay Wilson, Mr. Thomas Joseph Manning, Mr. Chen Qingtai, Mr. Li Ka-cheung, Eric and Mr. Gu Mingchao. The Bank's Independent Non-executive Directors acccounted for one-third of the total number of Directors, which met the relevant regulatory requirements. Please refer to the "Directors, Supervisors, Senior Management and Staff" section in this Annual Report for the biographical details of the Directors. There are no financial, business, family or other significant relationships amongst the members of the Board of Directors.

The Board of Directors appointed Mr. Hu Huaibang as Chairman of the Board of Directors in September 2008 after Mr. Jiang Chaoliang resigned from his position as Chairman of the Board of Directors due to reassignment of work. Mr. Li Jun is the Vice-Chairman of the Board of Directors and the President of the Bank. The roles of the Chairman and the President are mutually independent, with their respective duties and obligations clearly defined.

None of the Directors (including the Non-executive Directors) of the Bank has entered into any service contract with the Bank which provides for a specified length of service. According to the Articles of Association of the Bank, the term of each Director is three years and Directors are eligible for re-election upon completion of their term subject to the stipulations in the Articles of Association.

3. Meetings of the Board of Directors

The Bank has formulated the "Procedural Rules of the Board of Directors' Meeting" to clearly outline matters in respect of the requirements for convening and giving notice with respect of a meeting, the procedures, agenda and minutes of the meeting and so on. During the Reporting Period, the Board of Directors of the Bank held nine meetings (including five live meetings and four held by teleconference) and considered and approved 43 resolutions. Details are as follows:

The Third Meeting of the Fifth Session of the Board of Directors was held in Shenzhen on 19 March 2008 and the Fourth Meeting of the Fifth Session of the Board of Directors was held via teleconference from 20 to 25 March 2008. The Fifth Meeting of the Fifth Session of the Board of Directors was held in Shanghai on 29 April 2008 and the Sixth Meeting of the Fifth Session of the Board of Directors was held via teleconference from 8 to 15 July 2008. The Seventh Meeting of the Fifth Session of the Board of Directors was held via teleconference vote from 18 to 24 July 2008 and the Eighth Meeting of the Fifth Session of the Board of Directors was held in Shanghai on 26 August 2008. The Ninth Meeting of the Fifth Session of the Board of Directors was held in Shanghai on 25 September 2008 and the Tenth Meeting of the Fifth Session of the Board of Directors was held in Shanghai on 30 October 2008. The 11th Meeting of the Fifth Session of the Board of Directors was held via teleconference from 10 to 17 December 2008. All the aforementioned meetings were held in compliance with the Bank's Articles of Association, the "Procedural Rules of the Board of Directors' Meeting" and the code provisions of the Hong Kong Stock Exchange's Code of Corporate Governance Practices.

The summary of attendance at the meetings of the Board of Directors by the members of the Board of Directors during the Reporting Period is as follows:

Director	Number of Board meetings attended [5]	Attendance rate
Executive Directors		
Hu Huaibang[1]	2/2	100%
Li Jun	9/9	100%
Peng Chun	9/9	100%
Qian Wenhui	9/9	100%
Non-executive Directors		
Jiang Chaoliang[1]	6/6	100%
Zhang Jixiang	9/9	100%
Hu Huating	9/9	100%
Qian Hongyi[2]	—	—
Wong Tung Shun, Peter	9/9	100%
Laura M. Cha	9/9	100%
Li Keping[3]	5/5	100%
Gao Shiqing[3]	5/5	100%
Ji Guoqiang[2]	—	—
Lei Jun[2]	—	—
Yang Fenglin	9/9	100%
Independent Non-executive Directors		
Xie Qingjian	9/9	100%
Ian Ramsay Wilson	9/9	100%
Thomas Joseph Manning	9/9	100%
Chen Qingtai	9/9	100%
Li Ka-cheung, Eric	9/9	100%
Gu Mingchao	9/9	100%
Timothy D. Dattels[4]	—	—
Average attendance rate		**100%**

Notes:

1. Mr. Jiang Chaoliang has resigned from the positions of Non-executive Director and Chairman of the Board of Directors in September 2008 and Mr. Hu Huaibang was appointed as Executive Director and Chairman of the Board of Directors at the Ninth Meeting of the Fifth Session of the Board of Directors. Mr. Hu's appointment as Executive Director was approved by CBRC in October 2008. (same hereinafter)
2. Mr. Qian Hongyi, Mr. Ji Guoqiang and Mr. Lei Jun were appointed as Non-executive Directors of the Bank at the Bank's Eighth Meeting of the Fifth Session of the Board of Directors held on 26 August 2008 and their appointment had been approved by CBRC. (same hereinafter)
3. Mr. Li Keping and Mr. Gao Shiqing have resigned as Non-executive Directors of the Bank on 31 July 2008. (same hereinafter)
4. Mr. Timothy D. Dattels has resigned as Independent Non-executive Director of the Bank on 13 March 2008. (same hereinafter)
5. The attendance in Board meetings includes attendance in person or by proxy. (same hereinafter)

4. Board Committees

The Bank's Board of Directors has set up five Board Committees, being the Strategy Committee, the Audit Committee, the Risk Management Committee, Personnel and Compensation Committee and Social Responsibility Committee. During the Reporting Period, the Board of Directors revised its "Code of Practice of the Strategy Committee", "Code of Practice of the Risk Management Committee" and "Code of Practice of the Personnel and Compensation Committee", adjusted the organisation of the relevant Board Committee, improved the mechanism governing the abstention vote of a member at the Board Committee's meeting and enhanced the composition of the Board Committees.

Performance of duties by the respective Board Committees are as follows:

1. Strategy Committee. The Strategy Committee is primarily responsible for researching and analysing business objectives, formulating medium and long term development strategies, significant equity investment proposals and capital management of the Bank. The Strategy Committee comprises five members, including Mr. Hu Huaibang, Mr. Li Jun, Mr. Peng Chun, Mr. Qian Wenhui and Mr. Wong Tung Shun, Peter. Mr. Hu Huaibang serves as the Chairman of the Strategy Committee.

   During the Reporting Period, the Strategy Committee held two meetings where it considered matters such as the issue of bonds and management policies of the Bank's subsidiaries, and reported its recommendations to the Board of Directors. The summary of attendance at the meetings of the Strategy Committee is as follows:

Strategy Committee Members	Number of meetings attended	Attendance rate
Hu Huaibang[Note] (Chairman)	—	—
Jiang Chaoliang	2/2	100%
Li Jun	2/2	100%
Peng Chun	2/2	100%
Qian Wenhui	2/2	100%
Wong Tung Shun, Peter	2/2	100%
Average attendance rate		**100%**

Note: Mr. Hu Huaibang was appointed as the Chairman of the Strategy Committee at the Ninth Meeting of the Fifth Session of the Board of Directors held on 25 September 2008.

2. Audit Committee. The Audit Committee is mainly responsible for proposing the appointment, change or removal of the Bank's auditors, supervising the Bank's internal audit system and its implementation, acting as the communication channel between the Bank's internal and external auditors, reviewing the Bank's financial information and related disclosures, overseeing the Bank's accounting policies, financial conditions and financial reporting procedures, and monitoring the Bank's compliance management. The Audit Committee comprises five members, including Mr. Li Ka-cheung, Eric, Mr. Qian Hongyi, Mr. Yang Fenglin, Mr. Gu Mingchao and Mr. Chen Qingtai. Mr. Eric Li Ka-chueng, Eric, an Independent Non-executive Director, serves as the Chairman of the Audit Committee and the number of Independent Non-executive Directors exceeds half of the total number of members of the Audit Committee.

During the Reporting Period, the Audit Committee held four meetings where it considered periodic reports and results announcements, financial statements, profit distribution plan and internal control report, as well as the appointment of auditors and reported its recommendations to the Board of Directors. The summary of attendance at the meetings of the Audit Committee is as follows:

Audit Committee Members	**Number of meetings attended**	**Attendance rate**
Li Ka-cheung, Eric (Chairman)	4/4	100%
Zhang Jixiang[1]	3/3	100%
Qian Hongyi[1]	—	—
Yang Fenglin	4/4	100%
Chen Qingtai[2]	2/2	100%
Gu Mingchao	4/4	100%
Timothy D. Dattels	—	—
Average attendance rate		**100%**

Notes:

1. Mr. Qian Hongyi was appointed as a member of the Audit Committee at the Bank's Eighth Meeting of the Fifth Session of the Board of Directors held on 29 August 2008, while Mr. Zhang Jixiang ceased to be a member of the Audit Committee.
2. Mr. Chen Qingtai was appointed as a member of the Audit Committee at the Bank's Fifth Meeting of the Fifth Session of the Board of Directors held on 29 April 2008.

3. Risk Management Committee. The Risk Management Committee is mainly responsible for supervising and controlling the Bank's credit, market and operational risks, performing periodic evaluation of the Bank's risks exposure, management condition and risk tolerance capability and level, reviewing related-party transactions, significant fixed asset investments, asset disposals, asset pledges and external guarantees. It also submits recommendations to the Board of Directors in relation to the enhancement of the Bank's risk management and internal controls. In addition, it is responsible for managing related-party transactions, reviewing significant related-party transactions and controlling related risks. The Risk Management Committee comprises four members, including Mr. Xie Qingjian, Mr. Ji Guoqiang, Mr. Lei Jun and Mr. Ian Ramsay Wilson. Mr. Xie Qingjian, an Independent Non-executive Director, serves as the Chairman of the Risk Management Committee.

   During the Reporting Period, the Risk Management Committee held four meetings where it inspected the quarterly risk evaluation reports and reported its recommendations to the Board of Directors. The summary of attendance at the meetings of the Risk Management Committee is as follows:

Risk Management Committee Members	Number of meetings attended	Attendance rate
Xie Qingjian (Chairman)	4/4	100%
Li Keping[1]	2/2	100%
Gao Shiqing[1]	2/2	100%
Ji Guoqiang[2]	—	—
Lei Jun[2]	—	—
Ian Ramsay Wilson	4/4	100%
Average attendance rate		**100%**

Notes:

1. Both Mr. Li Keping and Mr. Gao Shiqing resigned as members of the Risk Management Committee on 31 July 2008.
2. Mr. Ji Guoqiang and Mr. Lei Jun were appointed as members of the Risk Management Committee at the Eighth Meeting of the Fifth Session of the Board of Directors held on 26 August 2008.

4. Personnel and Compensation Committee. The Personnel and Compensation Committee is primarily responsible for establishing the evaluation criteria for the Board of Directors and senior management and conducting the evaluation, formulating the remuneration plan for Directors, Supervisors and senior management as well as monitoring its implementation, and formulating the nomination criteria and procedures for the nomination of Directors and senior management and performing initial assessment. The Personnel and Compensation Committee comprises four members, including Mr. Thomas Joseph Manning, Mr. Zhang Jixiang, Ms. Laura M. Cha and Mr. Chen Qingtai. Mr. Thomas Joseph Manning, an Independent Non-executive Director, serves as the Chairman of the Personnel and Compensation Committee. The Personnel and Compensation Committee has also established a Nomination Committee and the nomination procedures mainly involve timely update of the Bank's demand for Directors and senior management and to identify appropriate candidates internally and externally on this basis. With regards to the appointment of Mr. Hu Huaibang, Mr. Qian Hongyi, Mr. Ji Guoqiang and Mr. Lei Jun, the Nomination Committee has performed an initial assessment on the eligibility and qualifications (including understanding and verifying their educational qualifications, employment history and whether they are compatible with the Bank's situation and requirements) of the candidates and reported their recommendations for appointment to the Board of Directors based on the results of their assessment.

   During the Reporting Period, the Personnel and Compensation Committee held five meetings where it considered matters such as nomination of Directors, appointment of senior management and the annual performance-based incentive scheme for senior management and reported its recommendations to the Board of Directors. The summary of attendance at the meetings of the Personnel and Compensation Committee is as follows:

Personnel and Compensation Committee Members	Number of meetings attended	Attendance rate
Thomas Joseph Manning (Chairman)	5/5	100%
Zhang Jixiang[Note]	2/2	100%
Hu Huating[Note]	3/3	100%
Laura M. Cha	5/5	100%
Chen Qingtai	5/5	100%
Average attendance rate		**100%**

Note: Mr. Zhang Jixiang was appointed as a member of the Personnel and Compensation Committee at the Bank's Eighth Meeting of the Fifth Session of the Board of Directors held on 26 August 2008, while Mr. Hu Huating ceased to be a member of the Personnel and Compensation Committee.

5. Social Responsibility Committee. The Social Responsibility Committee is primarily responsible for researching and formulating Its primary function is to formulate the Bank's social responsibility strategy and policy, monitoring, inspecting and evaluating the Bank's progress in fulfilling its social responsibility, and approving external donations based on the authorisation granted by the Board of Directors. The Social Responsibility Committee comprises five members, including Mr. Li Jun, Mr. Qian Wenhui, Mr. Hu Huating, Mr. Ji Guoqiang and Mr. Gu Mingchao. Mr. Li Jun serves as the Chairman of the Social Responsibility Committee.

During the Reporting Period, the Social Responsibility Committee held two meetings where it considered the Corporate Social Responsibility Report and the increase in the amount of donations to areas affected by earthquake, and reported its recommendations to the Board of Directors. The summary of attendance at the meetings of the Social Responsibility Committee is as follows:

Social Responsibility Committee Members	Number of meetings attended	Attendance rate
Li Jun (Chairman)	2/2	100%
Qian Wenhui	2/2	100%
Hu Huating[1]	—	—
Li Keping[2]	1/1	100%
Ji Guoqiang[1]	—	—
Gu Mingchao	2/2	100%
Average attendance rate		**100%**

Notes:

1. Mr. Hu Huating and Mr. Ji Guoqiang were appointed as members of the Social Responsibility Committee at the Eighth Meeting of the Fifth Session of the Board of Directors held on 26 August 2008.
2. Mr. Li Keping resigned as a member of the Social Responsibility Committee on 31 July 2008.

5. Performance of Independent Non-executive Directors

The qualifications of the six Independent Non-executive Directors of the Bank fully meet the requirements of CBRC, CSRC, the Shanghai Stock Exchange, as well as those under Rules 3.10(1) and 3.10(2) of the Hong Kong Listing Rules. The independence of the Bank's Independent Non-executive Directors is effectively assured as they do not have any business or financial interests in the Bank or its subsidiaries and they have not assume any managerial posts in the Bank. In addition, the Bank has received the annual confirmation on independence from all Independent Non-executive Directors and considered each of the Independent Non-executive Directors to be independent. During the Reporting Period, the attendance rate of the meetings of the Board of Directors of the Bank by Independent Non-executive Directors was 100% and physical attendance rate was 93%. Currently, the three Board Committees, being the Audit Committee, the Risk Management Committee and the Personnel and Compensation Committee are all chaired by Independent Non-executive Director. The Independent Non-executive Directors maintain communications with the Bank's senior management through various means such as on-site discussions and seminars. The Bank's Independent Non-executive Directors also actively expressed their views during meetings, thereby promoting scientific decision-making of the Board of Directors. The Independent Non-executive Directors have given their independent opinion on significant matters arose during the Reporting Period, including, but not limited to, related-party transactions, nomination of Directors and the appointment of senior management and have no objections to the resolutions of the Board of Directors or any other resolutions.

6. Responsibility of the Directors for the financial statements

The Directors are responsible for monitoring the preparation of the financial statements for each accounting period to ensure that the financial statements represent a true and fair view of the Group's business conditions, operating results and cash flow. During the preparation of the financial statements for the year ended 31 December 2008, the Directors have selected and applied appropriate accounting policies and have made reasonable and prudent accounting estimates. The Directors have confirmed their responsibility for the preparation of the financial statements, while the auditors' declaration of their reporting responsibility is contained in page 137 of this Annual Report.

7. Specific clarification and independent opinion by the Independent Non-executive Directors on external guarantees made by the Bank

The Bank's Independent Non-executive Directors consider that the Bank's external guarantee business is one of the regular businesses approved by China's banking regulatory authorities and the Bank has formulated detailed procedures for its external guarantee business, which covers areas such as risk prevention and operational assessment.

As at 31 December 2008, all the transactions between the Bank and its related parties are regular operational treasury business.

10.4 BOARD OF SUPERVISORS AND SPECIAL COMMITTEES

The Board of Supervisors is the supervisory body of the Bank and is responsible to the Shareholders' General Meeting. Its primary responsibilities includes examining the Bank's financials, monitoring the performance of the Bank's Directors, President and other senior management in relation to the execution of their duties, recommending on the removal of Directors, President and other senior management who have contravened the laws, the administrative regulations, the Bank's Articles of Association and the resolutions passed at the Shareholders' General Meeting. The Board of Supervisors also reviews financial information such as financial statements, operations report and profit distribution plan to be submitted by the Board of Directors at the Shareholders' General Meeting, and in the event of doubts, the Board of Supervisors can, on behalf of the Bank, appoint certified public accountants or professional auditors to review and conduct audits on the financial statements, as well as to call for an Extraordinary General Meeting. In the event that the Board of Directors fails to fulfill their responsibilities to call for or chair a Shareholders' General Meetings as required under the Company Law, the Board of Supervisors can convene and chair such meeting.

The Board of Supervisor currently has 11 members, comprising of one Chairman, five Supervisors, two External Supervisors and three Employee Representative Supervisors. Mr. Hua Qingshan serves as the Chairman of the Board of Supervisors.

The two External Supervisors of the Bank are experienced professionals in the economic and financial management industry and meet the qualifications required under "System of Independent Directors and External Supervisors for Share-based Commercial Banks Guidelines" (Yinfa [2002] No. 330). The External Supervisors do not have any business or financial interests in the Bank or its subsidiaries and they have not assume any managerial posts in the Bank, thereby assuring their independence. During the Reporting Period, the attendance rate of the meetings by External Supervisors was 100% and physical attendance rate was 87.5%. The External Supervisors also serve as the Chairmen of the Nomination Committee and the Finance and Internal Control Supervision Committee of the Board of Supervisors and also act as members of the Work Performance Supervision Committee. The External Supervisors diligently performed their duties, earnestly participated the directors and supervisors training organised by the Shanghai Branch of CSRC. The External Supervisors are attentive to changes in global and domestic economy and financial situation and consider their impact on the Bank's operation and results. They also recommended the Bank on matters such as credit risks and market risks management and application of accounting standards through meetings of the Board of Supervisors and seminars. In addition, they supervised the performance of the Board of Directors and senior management by attending the meetings of the Board of Directors and the Board Committees, by interviewing Directors and members of the senior management and so on.

Please refer to "Report of the Board of Supervisors" section of this Annual Report for details of the work done by the Board of Supervisors and its special committees.

10.5 SENIOR MANAGEMENT

The Bank's senior management comprises the President, the Vice-President, Chief Financial Officer, Chief Information Officer and Chief Risk Management Officer. The Bank adopted the system of accountability by the President under the leadership of the Board of Directors. The President is accountable to the Board of Directors, while the respective functional departments, branches and other members of the senior management of the Bank is accountable to the President. The President has the authority to organise and develop operations management activities in accordance with the laws, regulations, the Bank's Articles of Association and the authorisation from the Board of Directors. In 2008, the Board of Directors had approved the amendments to the "Code of Practice of the President" to define the content, frequency and format of the reports to be delivered by senior management, thereby creating an excellent communication and reporting mechanism between the senior management and the Board of Directors or the Board of Supervisors.

10.6 INTERNAL CONTROLS

The Board of Directors is responsible for formulating the internal control policy and supervising its execution. It has established the Audit Committee to fulfill the responsibilities with respect to internal controls, as well as to evaluate the implementation of the internal control system. The Risk Management Committee established under senior management is responsible for formulating the internal control policy and plan for the Bank, as well as evaluating the Bank's internal control situation. The Bank has its own Internal Audit Department which is independent from operations management, vertically structured and works under the leadership of the President. The Internal Audit Department continuously supervises the internal controls of the Bank at three different levels, namely the Head Office, regional and branch levels, and reports its audit findings directly to the Board of Directors, the Board of Supervisors and senior management.

During the Reporting Period, the Bank has paid close attention to and forecasted on the developments and changes in both global and domestic economic and financial situations and analysed its impact on various lines of business as well as overall management. The Bank has actively adopted unique control measures and continued to proceed with the planned development of its basic internal control system and significant projects, which ensured the effective implementation of various internal control measures.

1. Strengthened the development of the internal control system and improved risk prevention and business control capabilities.

   (1) Based on the implementation of comprehensive risk management from 2005 to 2007, the Bank further deepened and enhanced its comprehensive risk management system and formulated the "Bank of Communications 2008-2010 Comprehensive Risk Management Plan".

   (2) Further enhanced credit risk management. Pursuant to the requirements of the New Basel Capital Accord, the Bank has completed the preliminary development of a corresponding internal rating system. Three customer ratings model and one credit rating model have been developed for the corporate loans business and the rating results have been used in areas such as credit approval and post-lending management. The retail banking business has also developed 23 separate models, including models for personal loans and loans to small enterprises. In addition, the internal rating model and risk database were tested and have become operational in selected branches and are expected to be introduced Bank-wide in 2009. The Bank

has also revised and enhanced its credit policies and procedures by revising its "Credit Policy Manual" and "Credit Business Manual", and risk management measures such as its risk monitoring list. It has also begun the development of its IT support systems, including the consolidated collateral management system and the asset liability management system that complements the New Basel Capital Accord.

(3) Adjusted its market risk structure and established the Financial Markets Division to unify the Bank's foreign currency treasury business. The Bank has also centralised the management of its market risk and established monitoring and control departments in the frontline operations office and middle office management departments, respectively, to monitor and control the market risks arising from investment transactions.

(4) Explored and developed consolidated risk management and subsidiaries management approach. The Bank has formulated the "Bank of Communications Administrative Measures for Consolidation of Financial Statements" and activated the Group's consolidation management work. It has also formulated the "Bank of Communications Subsidiaries Risk Management Directives". In addition, the Bank has released the "Bank of Communications Subsidiaries Management Policy" and the "Bank of Communications Subsidiaries Tentative Management Plan" which clearly defines the Group's strategic guidance to and basic requirements for its subsidiaries management work. The Bank has also released a series of policy documentation, covering secondment of Directors and Supervisors, financial management of its subsidiaries, budget management and performance evaluation, business authorisation management, risk management, significant information reports and so on.

(5) Formulated the "Bank of Communications Comprehensive Work Plan for Sensitivity Testing" and initiated sensitivity testing for interest rate risk and real estate loans. In view of the changes in the economic environment, the Bank has also conducted a number of sensitivity tests on interest rate risks, housing loans, as well as the effects of the financial crisis and slowdown in macroeconomic growth on the Bank's asset quality.

2. Adopted specific measures to ensure the assets security.

   (1) Credit Business Management. The Bank actively adjusted the structure of its credit assets and its credit approval assessment by considering the effects of the economic climate on large corporations, which helped the Bank to maintain the size and momentum of its loan disbursement. The Bank has also activated in advance and continued to proceed with Bank-wide risk assessment with advance credit risk warning signals, and implemented the credit reduction and guarantees reinforcement measures. The Bank also activated its “Green Credit” project, which focused on supporting energy conservation, renewable energy, water pollution management and environmental conservation related projects, while gradually reducing its portfolio of customers that endangered the environment. The Bank has also actively promoted the application of the corporate internal rating system and incorporated its internal rating results into the credit assessment and approval and post-lending management processes, and utilised it for measuring credit risk and identifying customer values. In addition, the Bank has improved the quality of various aspects of the credit business process and focused on risk identification and post-lending management of the Group’s connected customers, as well as evaluated on the quality of its credit business.

   (2) Foreign currency denominated bond investment business. The Bank established a global financial crisis response mechanism, which involved the establishment of working groups comprising senior management and business experts to respond to issues arising from the financial crisis. The Bank also actively monitored credit risk changes of the bond issuer with respect to the bonds invested and reduced or froze the Bank’s domestic and foreign currency credit limits to high risk countries and organisations. The Bank also implemented categorised management of its bond holdings through actively updating its risk control list based on the magnitude of risk of the bond issuer, which assisted the Bank in taking appropriate actions against bonds of different risk categories and to take the opportunity to reduce its exposure on or exit from high risk bonds. The Bank also strictly controlled new investments in foreign-currency denominated bond and implemented special management procedures that requires pre-approval on each and every new bond investments until the global financial situation has been stabilised. In addition, the Bank has made adequate provision for impairment of foreign currency denominated bond investments to cover the risk exposure.

(3) Liquidity management. The Bank has formulated a liquidity risk contingency plan to regulate the daily monitoring of liquidity risk. The plan also covers areas such as risk alert and emergency responses. The Bank also strengthened the direction over matters such as the assets and liabilities, loan disbursements and bond investment of its overseas branches so as to ensure that the overseas branches have sufficient liquidity and to improve their market risk prevention capability.

3. Promoted the internal control development plan and implemented significant internal control development projects.

(1) The Bank continued to expedite the reform of its operating process and the building of the "Process Bank". The Bank promoted the streamlining of the front office and the restructuring of the business department, implemented the middle office key representative appointment scheme and the supervision matrix reporting mechanism, and focused on centralisation, integration and informatisation for the back-office reform. Breakthrough in sales capabilities from newly established city level branches has resulted in large volumes of middle office management and back office business operations being concentrated at the provincial level branches. The newly established "Hua Zhong Financial Service Center" concentrated on regional customer maintenance and call centre services, as well as guarantees and credit cards businesses. The Bank also centralised the management of pension funds accounts at the back office, thereby realising the mode of "operations-concentrated Head Office and services-oriented branches".

(2) The Bank has continued to diligently utilise advanced information technology to support its business operations and internal controls. It has developed an information security management system in accordance with international standards and obtained an ISO27001 international certification on information security. The Bank is currently developing the Disaster Recovery Center in Wuhan and back-up systems and information databases for key business systems have been established at the centre. In July 2008, the Bank successfully implemented the switch of operations to the Disaster Recovery Center in the same city and has preliminary developed the "2 places 3 centers" disaster recovery structure.

4. Further enhanced the monitoring of internal controls and effectively rectified internal control weaknesses

   During the Reporting Period, the Bank's internal audit and other relevant departments have continued to monitor the operations management of different organisations of the Bank and the performance of duties by all levels of employees. The Bank has also expanded the scope of internal audit and performed an audit of the financial and internal control situation of newly formed subsidiaries on the basis of performing in-depth audits on domestic and overseas branches. In addition, the Bank has continued its annual evaluation of the internal controls of each of the branches and expanded the coverage of the evaluation to all major subsidiaries.

   The Bank's Board of Directors have reviewed the effectiveness of the internal control systems of the Bank and its subsidiaries. During the Reporting Period, the Bank has performed a self-evaluation on its internal control and has prepared the annual internal control self-evaluation report on such basis.

10.7 SECURITIES TRANSACTIONS BY THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The Bank's Board of Directors and Board of Supervisors have strictly complied with the "Rules on the Management of Shares Held by the Directors, Supervisors and Senior Management Officers of Listed Companies and the Changes thereof" promulgated by CSRC and the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 to the Hong Kong Listing Rules, which were adopted as the code of conduct governing Directors' securities transactions. Based on specific inquiries made to the Directors and Supervisors,, all of the Bank's Directors and Supervisors have complied with the required standards under the aforementioned rules and codes during the year ended 31 December 2008.

10.8 AUDITORS' REMUNERATION

The Group's financial statements for the financial year ended 31 December 2008 prepared in accordance with International Financial Reporting Standards and have been audited by PricewaterhouseCoopers. The Group's financial statements prepared in accordance with China Accounting Standards have been audited by Deloitte Touche Tohmatsu CPA Ltd.. The aggregate audit fee was approximately RMB70.09 million.

The Bank incurred a fee of approximately RMB3.55 million and RMB0.49 million for non-audit services provided to the Bank by PricewaterhouseCoopers and Deloitte Touche Tohmatsu CPA Ltd., respectively, for 2008. The Audit Committee of the Board of Directors has gained a basic understanding of the nature of the non-audit services (such as document translation services) provided as well as the related fees. The Audit Committee is satisfied that the non-audit services provided (in terms of the nature of the non-audit services provided relative to the total amount of fees for non-audit services) have not impaired the independence of PricewaterhouseCoopers and Deloitte Touche Tohmatsu CPA Ltd..

The Board of Directors have approved the recommendation by the Audit Committee to appoint PricewaterhouseCoopers and Deloitte Touche Tohmatsu CPA Ltd. as the Group's external auditors for 2009 and this will be submitted for approval at the Bank's 2008 Annual General Meeting.

PricewaterhouseCoopers have provided audit services to the Group for eight years, and Deloitte Touche Tohmatsu CPA Ltd. have provided audit services to the Group for four years.

10.9 INVESTOR RELATIONS AND INFORMATION DISCLOSURE

The Bank has fulfilled the continuous information disclosure obligation stipulated under the securities rules and regulations of its place of listing. The Bank published its periodic reports and other announcements on the principles of compliance, transparency, adequacy and sustainability to ensure that price-sensitive information is communicated to investors on a fair, complete, accurate and timely basis and thereby improving the investors' understanding of the Bank's financial condition, operations management and corporate governance. During the Reporting Period, the Bank further optimised information disclosure in its periodic reports. The content of the disclosures are not merely in compliance with the basic requirements of the Hong Kong Stock Exchange and the Shanghai Stock Exchange but also satisfied a majority of the recommended disclosures as stipulated under the Hong Kong Listing Rules regarding key areas such as corporate governance, financial information and the Directors' compliance with the standards for securities transactions. In addition, the Bank revised and enhanced its rules governing the management of significant internal information based on its business development needs and the requirements of the Hong Kong and Shanghai Stock Exchanges to ensure the timeliness and completeness of the Group's disclosure of price sensitive information. The Bank received wide praise from its investors for the enriched content and adequate disclosure in its 2007 Annual Report and was awarded the "Best Corporate Governance Disclosure Award — Significant Improvement Award" by the Hong Kong Institute of Certified Public Accountants.

The Bank's senior management focused on the communications with the investors and continuously strengthened the investor relations management team to continue to maintain close communications and interaction with investors. The restriction on sales of approximately 13.2 billion restricted A shares was lifted in May 2008 and the Bank paid serious attention to this and formulated a detailed response in advance. Led by senior management, the Bank entered into discussions with major restricted shares shareholders and managed to effectively maintain the stability of the Bank's share price. At the same time, the Bank held the press conferences on its 2007 Annual Report, 2008 Interim Report and Third Quarter Results Announcement during the Reporting Period. The Bank also arranged senior management to participate in domestic and overseas road show after the publication of the annual results and visited its major institutional investors in countries and regions such as Hong Kong, Europe and the United States, as well as Beijing, Shanghai and Shenzhen domestically to communicate to the investors on the Bank's operating results and business development via one-on-one and small team dialogues. The Bank has also improved general communications with its investors through participation in investor research seminars, casual meetings with investors and analysts, reverse road shows and so on. The Bank's investor relations management team has participated innumerous interaction sessions with domestic and overseas investors and securities analysts, which reached over 900 man-times in 2008.

With the expectation of having our investors recognise and acknowledge the Bank as a valuable investment, the Bank will continue to work towards innovating and broadening the channels and forms of investor relations management, to strengthen communications and interactions with investors and to enhance investors' understanding of the Bank's development strategies and operations management in the years ahead.

Corporate Social Responsibilities

At the same time when the Bank pursued the business growth of its various lines of businesses, the Bank also committed itself to the sustainable healthy development of the economy and society. It has made significant contributions towards the building of a harmonious society by devoting its efforts in areas such as national infrastructure, regional development, environmental protection and charity. The Bank's work on these areas was widely recognised by the society and was given high regards. During the Reporting Period, the Bank was awarded the highest honour in the country's charity domain, namely the "Chinese Philanthropy Award" and named among the top ten "Most Caring Domestic Enterprises" by the Ministry of Civil Affairs. The Bank was also awarded the "Most Socially Responsible Enterprise Prize" by the China E-Commerce Association and the "Innovest Corporate Responsibility Award" from *The Chinese Banker* magazine.

SUPPORTING THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES

To meet the development needs of the current economy, the Bank provided practical, effective and comprehensive financial services to small-and-medium enterprises (SME) in 2008. During the Reporting Period, new small enterprise customers increased by 1,228 and new loans of RMB6.45 billion were disbursed under the financial service brand "Zhan Ye Tong". Cumulative amount of loans disbursed under "Zhan Ye Tong" reached RMB15.34 billion, representing an increase of 46.5%. The Bank also disbursed personal business loans of RMB32.5 billion to help small enterprises resolving their financing difficulties. To encourage unemployed to start their new ventures, the Bank also disbursed a total of 4,093 secured loans amounting to RMB156 million. In addition, the Bank signed supply chain financial services agreements with 85 core enterprises to provide financing services to 1,148 upstream and downstream enterprises of these core enterprises.

SUPPORTING THE DEVELOPMENT OF RURAL VILLAGES

Adhering to the principles of maintaining sustainable development and sound risk control, the Bank continued to step up its support in loan disbursements for agriculture and rural development projects and enhanced its financial services to the agricultural sector. Using agricultural production data, the Bank selectively supported leading chemical fertilizer producers and traders, agricultural machinery manufacturers, manufacturers of agricultural produce and agriculture-processing enterprises in order to help alleviating poverty in rural areas. Agricultural-related loans increased by 17.7% since the beginning of year. Moreover, the Bank supported the Government's rural development project by disbursing up to RMB2.2 billion to the six central government's subsidised projects, namely voluntary rural education subsidy scheme, debt repayment subsidy scheme, sow reproduction insurance scheme, rural medical scheme and rural electrical appliance scheme, an increase of RMB1.1 billion as compared to 2007. In order to enrich the rural financial services and enhance the service quality, the Bank established Dayi Bocom Xingmin Rural Bank, which is the first rural bank in the country with shareholding held by commercial banks and provides a full range of professional financial services and products to local enterprises and peasants.

PROMOTING THE "GREEN CREDIT" PROJECT

To achieve professional, scientific and refined management of the "Green Credit" project, the Bank commenced to implement the environmental impact classification project in early 2008. Customers are broadly classified into red, yellow and green categories and further divided into seven sub-categories (namely seven rankings). Different credit policies in terms of areas such as loan disbursement, credit assessment and post-lending management will be adopted according to those categories and rankings. As at the end of the Reporting Period, more than 99.93% of the Bank's loan portfolio were classified as green loans and 99.85% of its customers were classified as environmental-friendly. The Bank is the first commercial bank in the country to implement the environmental impact classification of all its loan customers and credit business.

RESPONDING TO SOCIAL CRISIS

During the Reporting Period, the Bank practically responded to the natural disasters and provided disaster relief and disaster reconstruction support by various means, with monetary and non-monetary donations of RMB92.9334 million being made to provinces including Guangxi, Guizhou, Hubei, Anhui, Jiangxi and Sichuan, which were affected by flooding, snowstorms and earthquake.

The Bank rapidly organised emergency response teams in branches located at disaster-affected regions to respond to the devastating effects of natural disaster, in particular, the Wenchuan Earthquake. The Bank donated a total of RMB81.9944 million for disaster relief. The Bank is committed to facilitate financial services for donations. Donations facilities were made available on the internet and free remittances for disaster relief were also implemented within the shortest possible time. Between May and June 2008, through the Bank's internet banking platform, cumulative donations from individual customers exceeded RMB8.963 million while cumulative donations from corporate customers exceeded RMB210 million. At the same time, the Bank also actively supported disaster reconstruction efforts by implementing measures such as improving credit approval efficiency and increasing loan disbursements with an aim to helping those who were affected by the disasters to regain their livelihood. The Bank provided integrated credit facilities of RMB5 billion to Dongfang Electric Corporation Limited, a national key equipment-manufacturing enterprise which has been severely affected by the earthquake. A loan of RMB250 million was made for the post disaster reconstruction project of the construction of the first permanent resettlement named "Xin Fu Jia Yuan — Yi Yuan" in Dujiangyan. Furthermore, the Bank provided "Green Channel" credit facilities to enterprise which produce disaster relief and reconstruction materials so as to ensure that necessary funding would be made available to these enterprises. As at the end of the Reporting Period, cumulative amount of loans extended for disaster relief and disaster reconstruction amounted to more than RMB16.16 billion.

SUPPORT FOR THE 2008 BEIJING OLYMPICS

By providing high quality, professional and efficient financial services during the 2008 Beijing Olympics, the Bank demonstrated its excellent corporate image of being a century-long established financial institution. Before the opening ceremony of the Beijing Olympics, a total of 10,100 automated teller machines with a normal operating rate of more than 98% were put into service nationwide, and 49 service outlets for processing foreign currency transactions and 21 service outlets for processing foreign currency exchange transactions were newly established in the six Olympics Games host cities. The Bank's various network locations served a total of 9,093 mantimes foreign customers, possessing 219,000 foreign exchange transactions worth of RMB747 million, 13,000 personal remittances transactions worth of RMB423 million, and 88,000 personal settlement transactions worth of RMB324 million.

SUPPORT FOR THE WORLD EXPO 2010 SHANGHAI CHINA

During the Reporting Period, the Bank proactively discharged its responsibilities as the "Global Commercial Bank Partner of the World Expo 2010 Shanghai China". Through the establishment of the "Shanghai World Expo Working Committee" and the implementation of a project accountability system, the efficient provision of financial services during the Shanghai World Expo can be guaranteed. The Bank has also designated various service teams to formulate financial solutions for the Shanghai World Expo, draw up a payment plan for the construction of the Shanghai Expo pavilion, promote Shanghai World Expo's philosophy and brands, enrich the product offering and build a special-designed service network for Shanghai World Expo site. The Bank also increased the credit facilities for the Shanghai World Expo by RMB2.5 billion to ensure sufficient cash flow for its daily operation and helped to raise low-cost construction funds of RMB4 billion for the Shanghai World Expo Land Holding Co., Ltd.. The Bank emerged as the best among the various sponsoring enterprises of the Shanghai World Expo in terms of the quality of financial services provided and the extent of participation, marketing and promotion coordination. As a result, it was awarded the highest award in the "2008 World Expo Star Enterprise Competition" — the "Expo Star Award".

SUPPORT FOR NATIONAL EDUCATION

The Bank has won praises from all walks of society for its active participation in various charity projects, including the numerous measures it has undertaken to support the nation's education initiatives. As at 31 December 2008, cumulative donations of RMB40 million were made to China Welfare Fund for Handicapped and the Bank continued to implement the "Moving Towards Tomorrow — Bank of Communications Disabled Youth Scholarship Scheme". The Bank's various branches also donated more than RMB1 million to poverty-stricken areas for projects such as construction of soccer fields and cafeterias for primary and secondary schools, purchase of books and stationary, and provision of cash assistance for needy students. In addition, the Bank disbursed RMB18.84 million of student loans to help more than 3,000 needy students to complete their university education.

POCKET CHANGE DONATION BOX INITIATIVE

Since the Bank's collaboration with the Chinese Financial Workers' Union and Central Financial Committee of the Chinese Communist Youth League in 2002 for the "Pocket Change Charity" initiative, the Bank has set up "Pocket Change" donation boxes at more than 70% of its service outlets nationwide. This had successfully established a platform for the public to demonstrate their compassion and generosity. The donation boxes at the Bank's various branches and sub-branches collected donations of RMB264,266.64 during the Reporting Period which was all donated to the China Children and Teenagers' Fund to help needy children whom dropped out of school. In 2008, the Bank was awarded the "Institute with the Greatest Passion for Children" for the second consecutive year by the China Children and Teenagers' Fund.

Other Events

1 RELATED PARTY TRANSACTIONS

Details of related party transactions during the Reporting Period are disclosed in the notes to the consolidated financial statements in this Annual Report.

2 MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

1. 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.

2. Material guarantees

The provision of guarantees is one of the off-balance-sheet business in the ordinary course of business of the Bank. During the Reporting Period, the Bank did not have any material guarantees that need to be disclosed except for the financial guarantee services within the business scope as approved by PBOC.

3. Material events concerning entrusting other persons for cash management

No such matters concerning entrusting other persons for cash management occurred in the Bank during the Reporting Period.

3 MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, there are no material litigation and arbitration that might have a significant adverse impact on the operation of the Bank.

As at 31 December 2008, the Bank has been involved in certain outstanding litigations as defendant or third party. The outstanding litigation amount was about RMB1.298 billion. After legal consultations, the management of the Bank is of the view that these litigation and arbitration cases will not have any material adverse impact on the financial position of the Bank.

4 MATERIAL UNDERTAKINGS

During the Reporting Period, based on the knowledge of the Bank, neither the Bank nor any of its shareholders with shareholdings of 5% and above have breached any of their respective undertakings.

5 INTRA GROUP TRANSACTIONS

In accordance with the requirements under the "Regulatory Guidance on the Preparation of Consolidated Financial Statements for Banks" promulgated by CBRC, the Group has progressively formalised the management of intra group transactions during the Reporting Period. The following policies have been formulated: "Bank of Communications Administrative Measures for Consolidation of Financial Statements", "Bank of Communications Subsidiaries Risk Management Directives" and "Bank of Communications Administrative Measures for Material Information Disclosure by its Subsidiaries". These policies have facilitated the progressive development of the risk-monitoring, reporting, control and processing mechanism for intra group transactions.

During the Reporting Period, the Bank is not aware of any fictitious or unauthorised intra group transactions, or any intra group transactions which are not done on an arm's length basis that may have an adverse effect on the steady growth and future development of the Bank.

6 DISCIPLINARY ACTIONS AGAINST THE BANK, ITS DIRECTORS, ITS SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, neither the Bank, nor any of its Directors, Supervisors and senior management members was subject to any investigation by competent authorities, compulsory enforcement of judicial and discipline departments, investigation or administrative penalty or sanctions by CSRC and public reprimand by the stock exchanges.

7 HOLDINGS OF SHARES ISSUED BY OTHER LISTED COMPANIES

Stock code	Simplified stock name	Initial investment cost (RMB)	Percentage shareholding (%)	Term-end cost (RMB)	Gains/Losses in the Reporting Period (RMB)	Equity movement in the Reporting Period (RMB)	Accounting items	Source of shares
600068	Gezhouba	140,315,551.00	2.05	301,912,520.00	21,550,259.47	(245,588,684.00)	AFS securities	Foreclosed assets
600837	Haitongzhengquan	282,242,325.00	0.25	168,858,537.08	–	(113,383,787.92)	AFS securities	Foreclosed assets
600000	Pufayinhang	6,000,000.00	0.14	108,570,897.50	–	(324,073,886.50)	AFS securities	Equity investment
03377	Sino-Ocean Land	138,863,720.57	0.43	62,489,355.39	–	(109,983,221.20)	AFS securities	Equity investment
00388	HKEX	2,371,919.39	0.07	52,249,626.24	–	(105,335,394.75)	AFS securities	Equity investment
000979	ST Keyuan	12,494,400.00	8.84	52,060,000.00	–	(12,384,800.00)	AFS securities	Foreclosed assets
600642	Shennenggufen	9,333,333.33	0.17	29,950,000.00	3,106,300.41	(62,502,500.00)	AFS securities	Equity investment
000686	Dongbeizhengquan	3,740,000.00	0.38	26,663,088.54	–	(87,464,690.61)	AFS securities	Foreclosed assets
08253	Tianyuanlvye	28,289,828.52	8.08	24,961,613.40	–	(3,328,215.12)	AFS securities	Equity investment
03808	Sinotruk	53,995,928.28	0.22	23,017,068.00	–	(30,425,466.00)	AFS securities	Equity investment
	Others	136,367,279.63		190,445,672.27	11,291,350.48	(323,521,906.46)		
	Total	**814,014,285.72**		**1,041,178,378.42**	**35,947,910.36**	**(1,417,992,552.56)**		

Notes:

i) The table sets out the Group's holdings of shares in other listed companies that are classified as investment securities – available-for-sale and financial assets held for trading in the Group's consolidated financial statements.

ii) Gains or losses in the Reporting Period refer to the impact of such investments on the Group's consolidated net profit for the Reporting Period.

8 HOLDINGS OF SHARES ISSUED BY UNLISTED FINANCIAL INSTITUTIONS

Name of institution	Initial investment cost (RMB)	Number of shares held	Percentage shareholding (%)	Term-end Cost (RMB)	Gains/Losses in the Reporting Period (RMB)	Equity movement in the Reporting Period	Accounting items	Source of shares
Jiangsu Changsu Rural Commercial Bank Co., Ltd.	380,000,000.00	57,560,225	10.00	380,000,000.00	11,573,082.48	–	AFS securities	Equity investment
China Union Pay Co., Ltd.	146,250,000.00	112,500,000	3.90	146,250,000.00	1,800,000.00	–	AFS securities	Equity investment
Total	**526,250,000.00**	**170,060,225**		**526,250,000.00**	**13,373,082.48**			

9 SALES AND PURCHASES OF OTHER LISTED EQUITY SHARES

Stock name	Number of shares held at beginning of period	Number of share bought/(sold) during the Reporting Period	Number of shares held at end of period	Purchase cost (RMB)	Investment realised gains/ (losses) (RMB)
Tianyuanlvye	–	94,350,000	94,350,000	28,289,828.52	–
Zhongmeinengyuan	–	340,000	340,000	6,678,368.82	–
China Mobile	2,000	41,000	43,000	4,726,137.44	–
Gongshangyinhang	–	930,000	930,000	4,710,776.41	–
Shandongchenming	–	500,000	500,000	3,980,365.38	–
Zhongguoshenhua	–	125,000	125,000	3,663,357.45	–
Zhongguopingan	60,000	167,760	227,760	3,550,660.53	–
Zhongguotiejian	–	300,000	300,000	3,245,251.30	–
Changhangyouyun	–	200,000	200,000	2,803,644.41	–
Zhongguotaibao	–	83,010	83,010	2,490,300.00	–
Zhongxinyinhang	–	850,000	850,000	2,376,225.66	–
Kangmeiyaoye	–	150,000	150,000	1,777,338.50	–
Franshion Ppt	350,000	200,000	550,000	690,335.84	–
Xtep Int'l	–	200,000	200,000	578,377.97	–
Hopewell Infra	–	17,000	17,000	66,124.89	–
Dazhonggongyong	1,000,000	(1,000,000)	–	–	228,005,570.29
Gezhouba	35,813,000	(1,660,000)	34,153,000	–	21,550,259.47
Qingfangcheng	2,199,068	(2,199,068)	–	–	13,596,478.60
ST Lianyou	10,352,000	(2,902,000)	7,450,000	–	10,329,961.52
Jidiangufen	3,000,000	(3,000,000)	–	–	7,421,898.35
Shitougufen	4,178,789	(4,178,789)	–	–	7,336,777.57
Boyingtouzi	646,179	(646,179)	–	–	7,286,870.30
ST Tianqiao	2,938,866	(2,938,866)	–	–	5,365,964.51
DongbeiZhiyao	311,657	(311,657)	–	–	5,091,841.25
S*ST Cika	610,000	(610,000)	–	–	(3,440,975.63)
Shijiguanghua	236,925	(236,925)	–	–	2,812,162.89
Shennenggufen	5,250,000	(250,000)	5,000,000	–	1,456,300.41

Note: Other than disposal of securities obtained by the Bank as security for loans in the ordinary course of business, the remaining movements in securities as shown in the above table are as a result of the trading of listed securities by a subsidiary of the Bank.

The wealth management product series ‘Delibao Qicai’ are comprehensive wealth management products denominated in foreign currencies, which tailored made by The Bank of Communications to its widespread clients. The products capitalize the wisdom of the experienced investment experts all around the world as well as the extensive financial instruments of the bank. Based on the engagement of the clients, we will make use of the operations of domestic and overseas financial markets and the fund management, bringing clients relatively high yield.

得利宝

七彩理财系列

Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

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

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

We have audited the consolidated financial statements of Bank of Communications Co., Ltd. ("the Bank") and its subsidiaries (collectively "the Group") set out on pages 139 to 315, which comprise the Bank's and its consolidated balance sheets as at 31 December 2008, and the consolidated profit and loss account, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2008 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 March 2009

Consolidated Financial Statements

Consolidated Profit and Loss Account

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

Group

	Note	For the year ended 31 December 2008	2007
Interest income		117,106	90,319
Interest expense		(51,244)	(36,376)
Net interest income	4	65,862	53,943
Fee and commission income	5	10,121	8,245
Fee and commission expense	6	(1,284)	(1,150)
Net fee and commission income		8,837	7,095
Dividend income	7	83	77
Gains less losses arising from trading activities	8	1,557	250
Gains less losses arising from de-recognition of investment securities	21	226	657
Other operating income	9	711	767
Impairment losses	10	(10,690)	(6,380)
Other operating expenses	11	(30,867)	(25,295)
Operating profit before tax		35,719	31,114
Income tax	14	(7,229)	(10,712)
Net profit for the year		28,490	20,402
Attributable to:			
Shareholders of the Bank		28,393	20,274
Minority interest		97	128
		28,490	20,402
Basic and diluted earnings per share			
For profit attributable to the shareholders of the Bank (in RMB)	15	0.58	0.42
Dividends			
Interim dividends declared during the year		4,899	—
Final dividends proposed after the balance sheet date		4,899	7,349
		9,798	7,349

The accompanying notes presented on pages 145 to 315 form an integral part of these consolidated financial statements.

Consolidated Balance Sheet

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

Group

	Note	As at 31 December 2008	2007
ASSETS			
Cash and balances with central banks	16	362,180	261,433
Due from other banks and financial institutions	17	331,511	156,110
Financial assets held for trading	18	26,936	19,340
Loans and advances to customers	20	1,298,776	1,082,788
Investment securities — loans and receivables	21	90,903	66,693
Investment securities — available-for-sale ("AFS")	21	142,010	146,454
Investment securities — held-to-maturity ("HTM")	21	367,878	326,953
Property and equipment	22	35,279	32,199
Deferred tax assets	28	2,693	2,524
Other assets	23	24,781	15,950
Total assets		2,682,947	2,110,444
LIABILITIES			
Due to other banks and financial institutions	24	569,453	332,556
Financial liabilities held for trading	25	10,013	10,028
Due to customers	26	1,865,815	1,555,599
Other liabilities	27	43,199	35,564
Current taxes		4,165	5,872
Deferred tax liabilities	28	207	504
Debts issued	30	40,000	37,000
Total liabilities		2,532,852	1,977,123
EQUITY			
Capital and reserves attributable to the Bank's shareholders			
Share capital	31	48,994	48,994
Capital surplus	31	43,100	43,100
Other reserves		33,443	20,422
Retained earnings		24,125	20,387
		149,662	132,903
Minority Interest		433	418
Total equity		150,095	133,321
Total equity and liabilities		2,682,947	2,110,444
Proposed final dividends in retained earnings		4,899	7,349

These consolidated financial statements were approved for issue by the Board of Directors on 18 March 2009 and signed on its behalf by:

Chairman of Board: Hu Huaibang *Vice Governor and Chief Financial Officer: Yu Yali*

The accompanying notes presented on pages 145 to 315 form an integral part of these consolidated financial statements.

Balance Sheet

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

Bank

	Note	As at 31 December 2008	2007
ASSETS			
Cash and balances with central banks	16	362,159	259,007
Due from other banks and financial institutions	17	330,861	154,976
Financial assets held for trading	18	26,735	19,323
Loans and advances to customers	20	1,298,494	1,082,060
Investment securities — loans and receivables	21	90,467	66,693
Investment securities — available-for-sale (“AFS”)	21	141,601	145,045
Investment securities — held-to-maturity (“HTM”)	21	367,799	326,953
Investments in and due from subsidiaries	38	3,586	5,184
Property and equipment	22	34,251	30,937
Deferred tax assets	28	2,736	2,524
Other assets	23	16,079	13,168
Total assets		2,674,768	2,105,870
LIABILITIES			
Due to other banks and financial institutions	24	564,401	332,556
Financial liabilities held for trading	25	10,013	10,028
Due to customers	26	1,865,808	1,555,599
Other liabilities	27	40,748	32,230
Current taxes		4,130	5,811
Deferred tax liabilities	28	146	298
Debts issued	30	40,000	37,000
Total liabilities		2,525,246	1,973,522
EQUITY			
Capital and reserves attributable to the Bank’s shareholders			
Share capital	31	48,994	48,994
Capital surplus	31	43,992	43,992
Other reserves		33,202	19,571
Retained earnings		23,334	19,791
Total equity		149,522	132,348
Total equity and liabilities		2,674,768	2,105,870
Proposed final dividends in retained earnings		4,899	7,349

The accompanying notes presented on pages 145 to 315 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

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

			Other reserves								
	Share capital Note 31	Capital surplus Note 31	Statutory reserve Note 32	Discretionary reserve Note 32	Statutory general reserve Note 32	Revaluation reserve for AFS securities	Revaluation reserve for properties	Translation reserve on foreign operations	Retained earnings Note 31, 32	Minority interest	Total
Balance at 1 January 2007	45,804	21,540	899	–	4,428	867	4,383	(213)	12,728	59	90,495
Gains from changes in fair value of AFS securities, net of tax	–	–	–	–	–	1,049	–	–	–	51	1,100
Transfer to net profit on disposal or impairment of AFS securities, net of tax	–	–	–	–	–	(483)	–	–	–	–	(483)
Revaluation of property	–	–	–	–	–	–	1,236	–	–	–	1,236
Realization of revaluation reserve upon disposals	–	–	–	–	–	–	(20)	–	20	–	–
Translation difference on foreign operations	–	–	–	–	–	–	–	(403)	–	–	(403)
Tax rate change impact	–	–	–	–	–	118	506	–	–	–	624
Net income/(expense) recognized directly in equity	–	–	–	–	–	684	1,722	(403)	20	51	2,074
Net profit	–	–	–	–	–	–	–	–	20,274	128	20,402
Acquisition of new subsidiary	–	–	–	–	–	–	–	–	–	180	180
Dividends	–	–	–	–	–	–	–	–	(4,580)	–	(4,580)
Transfer to reserves	–	–	1,271	576	6,208	–	–	–	(8,055)	–	–
Issue of shares	3,190	21,560	–	–	–	–	–	–	–	–	24,750
Balance at 31 December 2007	48,994	43,100	2,170	576	10,636	1,551	6,105	(616)	20,387	418	133,321
Balance at 1 January 2008	48,994	43,100	2,170	576	10,636	1,551	6,105	(616)	20,387	418	133,321
Gains from changes in fair value of AFS securities, net of tax	–	–	–	–	–	698	–	–	–	(58)	640
Transfer to net profit on disposal or impairment of AFS securities, net of tax	–	–	–	–	–	487	–	–	–	10	497
Revaluation of property	–	–	–	–	–	–	2	–	–	–	2
Realization of revaluation reserve upon disposals	–	–	–	–	–	–	(35)	–	35	–	–
Translation difference on foreign operations	–	–	–	–	–	–	–	(596)	–	–	(596)
Tax rate change impact	–	–	–	–	–	5	18	–	–	–	23
Net income/(expense) recognized directly in equity	–	–	–	–	–	1,190	(15)	(596)	35	(48)	566
Net profit	–	–	–	–	–	–	–	–	28,393	97	28,490
Establishment of new subsidiary (Note 38)	–	–	–	–	–	–	–	–	–	23	23
Dividends	–	–	–	–	–	–	–	–	(12,248)	(57)	(12,305)
Transfer to reserves	–	–	1,993	8,511	1,938	–	–	–	(12,442)	–	–
Balance at 31 December 2008	48,994	43,100	4,163	9,087	12,574	2,741	6,090	(1,212)	24,125	433	150,095

The accompanying notes presented on pages 145 to 315 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

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

	For the year ended 31 December 2008	2007
Cash flows from operating activities:		
Net profit before taxation:	35,719	31,114
Adjustments for:		
Impairment of loans and advances to customers	10,190	5,961
Write-back of due from banks and financial institutions	(25)	(113)
Reversal of impairment of other receivables	(67)	(592)
Impairment of investment securities	1,090	692
Depreciation of property and equipment	3,006	2,665
Reversal of revaluation deficit of property and equipment	(3)	(70)
Amortization of prepaid staff subsidies	15	15
Amortization of land use rights	6	10
Amortization of intangible assets	228	223
Gains less losses arising from de-recognition of investment securities	(226)	(657)
Gains on disposal of fixed assets	(47)	(99)
Decrease/(Increase) in the fair value of investment property	19	(13)
Accrued interest expense on term debt	1,724	1,492
Fee on debt issue	10	—
Net increase in mandatory reserve deposits	(52,035)	(96,069)
Net increase in due from other banks and financial institutions	(94,420)	(38,456)
Net increase in financial assets held for trading	(7,596)	(6,450)
Net increase in loans and advances to customers	(226,178)	(180,948)
Net increase in other assets	(8,691)	(523)
Net increase in due to other banks and financial institutions	236,897	96,449
Net (decrease)/increase in financial liabilities held for trading	(15)	1,304
Net increase in due to customers	310,216	211,422
Net increase in other liabilities	8,537	9,717
Net increase in business tax payable	199	508
Income tax paid	(9,951)	(6,272)
Net cash from operating activities	208,602	31,310

Consolidated Statement of Cash Flows *(Continued)*

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

	For the year ended 31 December	
	2008	2007
Cash flows from investing activities:		
Acquisition of subsidiary, net of cash acquired	—	11
Purchase of investment securities	(358,688)	(536,871)
Disposal or redemption of investment securities	298,726	379,441
Acquisition of intangible assets	(75)	(191)
Purchase of land use rights	(185)	(3)
Purchase of property and equipment	(6,983)	(7,227)
Disposal of property and equipment	1,026	636
Net cash used in investing activities	(66,179)	(164,204)
Cash flows from financing activities:		
Issue of shares	—	24,750
Debts issued	3,000	25,000
Fee on debt issue	(10)	—
Interest paid on debt	(1,666)	(577)
Dividends paid	(13,407)	(5,311)
Minority interest-capital contribution	23	—
Dividends paid to minority interest	(57)	—
Net cash (used in)/from financing activities	(12,117)	43,862
Effect of exchange rate changes on cash and cash equivalents	(638)	(627)
Net increase/(decrease) in cash and cash equivalents	129,668	(89,659)
Cash and cash equivalents at the beginning of the period	96,064	185,723
Cash and cash equivalents at the end of the period (Note 37)	225,732	96,064
Supplementary Information		
Interest received	114,053	89,113
Interest paid	(40,011)	(31,853)

The accompanying notes presented on pages 145 to 315 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

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

1 GENERAL

Bank of Communications Co., Ltd. (the "Bank") is a commercial and retail bank providing banking services mainly in the People's Republic of China ("PRC"). The Bank was reorganised as a joint stock national commercial bank on 1 April 1987, in accordance with the approval notice (Guo Fa (1986) No. 81) issued by the State Council of the PRC and the approval notice (Yin Fa (1987) No. 40) issued by the People's Bank of China ("PBOC"). Headquartered in Shanghai, the Bank operates 105 city level branches in the PRC. In addition, the Bank has branches in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt and Macao. The Bank's A shares are listed on Shanghai Stock Exchange and H shares are listed on Hong Kong Stock Exchange.

2 ACCOUNTING POLICIES

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

A Basis of presentation

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

Critical accounting estimates and judgments in applying accounting policies

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

2 ACCOUNTING POLICIES *(Continued)*

A Basis of presentation *(Continued)*

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

a) *Impairment losses on loans and advances*

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

b) *Fair value of financial instruments*

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

2 ACCOUNTING POLICIES *(Continued)*

A Basis of presentation *(Continued)*

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

c) *Income taxes*

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

d) *Held-to-maturity*

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

e) *Impairment of available for sale financial assets and held to maturity securities*

The Group follows the guidance of IAS 39 to determine when an available for sale or held to maturity financial asset is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk.

2 ACCOUNTING POLICIES *(Continued)*

A Basis of presentation *(Continued)*

The Group adopted the following amendments and interpretations that were effective in 2008:

- IAS 39 Amendment — Financial Instruments: Recognition and Measurement amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

- IFRIC 11 — IFRS 2 Group and treasury share transactions, provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements.

- IFRIC 14 — IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction, provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have an impact on the Group's financial statements.

IFRIC 12 — Service Concession Arrangements is effective for accounting periods beginning on or after 1 January 2008 but is not relevant to the Group's operations.

2 ACCOUNTING POLICIES *(Continued)*

A Basis of presentation *(Continued)*

The Group has chosen not to early adopt the following standards and interpretations that were issued but not yet effective for accounting period beginning on 1 January 2008:

- IAS 1 (revised), Presentation of Financial Statements (effective from 1 January 2009).
- IAS 19 (Amendment) — Employee Benefits (effective from 1 January 2009).
- IAS 23 (Revised) Borrowing Costs (effective from 1 January 2009).
- IAS 27 (Revised), Consolidated and Separate Financial Statements (effective from 1 July 2009).
- IAS 28 (Amendment) — Investments in Associates (effective from 1 January 2009).
- IAS 32 (Amendment) — Financial Instruments: Presentation and IAS 1 (Amendment) — Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective from 1 January 2009).
- IAS 36 (Amendment) — Impairment of Assets (effective from 1 January 2009).
- IAS 38 (Amendment) — Intangible Assets (effective from 1 January 2009).
- IFRS 2 (Amendment) — Share-based Payment (effective from 1 January 2009).
- IFRS 3 (Revised), Business Combinations (effective from 1 July 2009).
- IFRS 5 (Amendment) — Non-current Assets Held for Sale and Discontinued Operations (effective from 1 July 2009).

2 ACCOUNTING POLICIES *(Continued)*

A Basis of presentation *(Continued)*

- IFRS 8, Operating Segments (effective from 1 January 2009).

- IFRIC 13 — Customer Loyalty Programmes Statement (effective for the annual period beginning on or after 1 July 2008).

- IFRIC 16 — Hedges of a net investment in a foreign operation (effective for the annual period beginning on or after 1 October 2008).

The standards, amendments and interpretations are not expected to have a material effect on the Group's operating results or financial position.

The following Standards, amendments and Interpretations are not yet effective and not relevant to the Group's operations:

- IFRS 1 (Amendment) — First Time Adoption of IFRS and IAS 27 (Amendment) Consolidated and Separate Financial Statements (effective from 1 January 2009).

- IFRIC 15 Agreements for Construction of Real Estates (effective from 1 January 2009).

- IAS 16 (Amendment) — Property, Plant and Equipment (and consequential amendment to IAS 7 Statement of Cash Flows (effective from 1 January 2009).

- IAS 20 (Amendment) — Accounting for Government Grants and Disclosure of Government Assistance (effective from 1 January 2009).

- IAS 29 (Amendment) — Financial Reporting in Hyperinflationary Economies (effective from 1 January 2009).

- IAS 31 (Amendment) — Interests in Joint Ventures (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009).

2 ACCOUNTING POLICIES *(Continued)*

A Basis of presentation *(Continued)*

- IAS 40 (Amendment) — Investment Property (and consequential amendments to IAS 16) (effective from 1 January 2009).

- IAS 41 (Amendment) — Agriculture (effective from 1 January 2009).

B Subsidiary undertakings

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of Group's share of the identifiable net assets acquired is recorded as goodwill. Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the loss cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

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

2 ACCOUNTING POLICIES *(Continued)*

C Derivative financial instruments

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

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

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

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

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

2 ACCOUNTING POLICIES *(Continued)*

D Financial assets

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

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

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

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

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

- The designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as “an accounting mismatch”) that would otherwise arise from measuring the financial assets or recognizing the gains and losses on them on different bases; or

- Certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and

- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

2 ACCOUNTING POLICIES *(Continued)*

D Financial assets *(Continued)*

b) Loans and receivables

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

c) Held-to-maturity financial assets

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

d) Available-for-sale financial assets

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

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

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

2 ACCOUNTING POLICIES *(Continued)*

D Financial assets *(Continued)*

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

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

E Impairment of financial assets

a) *Assets carried at amortised cost*

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

2 ACCOUNTING POLICIES *(Continued)*

E Impairment of financial assets *(Continued)*

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

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

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

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

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

2 ACCOUNTING POLICIES *(Continued)*

E Impairment of financial assets *(Continued)*

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

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude) to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

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

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

2 ACCOUNTING POLICIES *(Continued)*

E Impairment of financial assets *(Continued)*

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

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

b) ***Assets classified as available for sale***

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

2 ACCOUNTING POLICIES *(Continued)*

F Financial liabilities

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities. All financial liabilities are classified at inception and recognised initially at fair value.

a) *Financial liabilities at fair value through profit or loss*

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

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the short term. It is carried at fair value and any gains and losses from changes in fair value are recognised in the profit and loss account.

A financial liability is typically classified as fair value through profit or loss at inception if it meets the following criteria:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring the financial liabilities or recognising the gains and losses on them on different bases; or

- Part of a group of financial liabilities that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and

- Financial instruments, such as debt securities issued, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit or loss.

Financial liabilities designated at fair value through profit or loss are carried at fair value and any gains and losses from changes in fair value are recognised in the profit and loss account.

2 ACCOUNTING POLICIES *(Continued)*

F Financial liabilities *(Continued)*

b) Other financial liabilities

Other financial liabilities are recognised initially at fair value net of transaction costs incurred. Other financial liabilities are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the profit and loss account over the period of the other financial liabilities using the effective interest method.

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

G Interest income and expense

Interest income and expense are recognised in the profit and loss account for interest-bearing instruments on an accruals basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2 ACCOUNTING POLICIES *(Continued)*

H Fee and commission income

Fees and commissions are generally recognised on an accruals basis when the service has been provided. Loan syndication fees are recognised as commission income when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate as the other participants. Commissions and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party — such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses — are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

I Dividend income

Dividends are recognised in the income statement when the Group's right to receive payment is established.

J Sale/purchase and repurchase/resale agreements

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

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

2 ACCOUNTING POLICIES *(Continued)*

K Property and equipment

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

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

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

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

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

No depreciation is provided against construction in progress.

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

2 ACCOUNTING POLICIES *(Continued)*

K Property and equipment *(Continued)*

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

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

L Foreclosed assets

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

M Land use rights

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

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

2 ACCOUNTING POLICIES *(Continued)*

N Intangible assets

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

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

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

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

2 ACCOUNTING POLICIES *(Continued)*

O Investment property

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

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

P Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 ACCOUNTING POLICIES *(Continued)*

Q Leases

a) *Finance lease*

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases.

When the Group is a lessor under finance leases, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognised as a receivable in "Other assets". The difference between the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs and their present value is recognised as unearned finance income. Lease income is recognised over the term of the lease using an interest rate which reflects a constant rate of return.

b) *Operating lease*

All leases other than finance leases are classified as operating leases.

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

R Cash and cash equivalents

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

2 ACCOUNTING POLICIES *(Continued)*

S Provisions

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

T Current and Deferred income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Bank and the subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

2 ACCOUNTING POLICIES *(Continued)*

T Current and Deferred income taxes *(Continued)*

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

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

The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

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

U Share capital

a) *Share issue costs*

External costs directly attributable to the issue of new shares are shown in equity as a deduction, from the proceeds.

b) *Dividends on ordinary shares*

Dividends on ordinary shares are recognised in equity in the financial period in which they are declared and approved by the Bank's shareholders.

V Acceptances

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

2 ACCOUNTING POLICIES *(Continued)*

W Employee benefits

a) *Staff benefit and retirement benefit obligations*

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

b) *Share-based compensation*

The Group operates a cash-settled, share-based compensation plan to certain senior management of the Bank, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense.

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

X Foreign currency translation

a) *Functional and presentation currency*

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

2 ACCOUNTING POLICIES *(Continued)*

X Foreign currency translation *(Continued)*

b) Transactions and balances

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

Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

c) Group companies

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

— Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— Income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

— All resulting exchange differences are recognised as a separate component of equity.

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

2 ACCOUNTING POLICIES *(Continued)*

Y Contingent liabilities and contingencies

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

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

Z Financial guarantee contracts

The Group has the following types of financial guarantee contracts: acceptances, letters of credit and letters of guarantee issued.

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

Any increase in the liability relating to guarantees is taken to the profit and loss account.

2 ACCOUNTING POLICIES *(Continued)*

AA Fiduciary activities

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

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

AB Segment reporting

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

AC Offset financial assets and liabilities

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

3 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Managing risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

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

The Board of Directors provides strategy and risk preference for overall risk management and decides the risk tolerance. The senior management established related risk management policies and procedures under the strategy approved by the Board, including written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. Such risk policies and procedures are carried out by various departments at head office after Board's approval. The Chief Risk Officer assumes the overall risk management responsibility on behalf of the senior management. The risk management department at head office, as the main risk management department, undertakes the overall risk management function of the Group. The risk management division in each head office's department, the risk management department of each domestic and overseas branch and subsidiary undertakes the specific risk management function. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The main types of operating risk are credit risk, liquidity risk and market risk which also includes currency risk, interest rate risk and other pricing risk.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Significant changes in the economy, or those in credit quality of a particular industry segment or concentration in the Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Credit risk increases when the counterparties are in the similar geographical or industry segments. Credit exposures arise principally from loans and advances, debt securities and due from banks and other financial institutions. There is also credit risk in off-balance sheet financial arrangements such as loan commitments. The majority of the Group's operation is located within Mainland China, where different areas in China have their own unique characteristics in economic development. Management therefore carefully manages its exposure to credit risk. The risk management department at head office is responsible for the overall management of the Group's credit risk, and reported to the Bank's senior management and Board of Directors regularly. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Such limits are monitored on a regular basis and subject to an annual review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also partially managed in part by obtaining collateral and corporate and personal guarantees.

3.1.1 Credit risk measurement

(a) Loans and advances and off balance sheet exposures

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

These, as required under IAS 39, are based on losses that have been incurred at the balance sheet date rather than expected losses.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk measurement *(Continued)*

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

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

Group's internal rating scale

Group's rating	**Description of the grade**
1	Basically borrower does not default with solid debt servicing capacity.
2	Less affected by uncertainties, borrower is extremely unlikely to default with solid debt servicing capacity.
3	Sometimes affected by uncertainties, borrower is unlikely to default with sufficient debt servicing capacity.
4	Affected by some uncertainties, borrower is less likely to default with favourable debt servicing capacity.
5	Basically borrower will not default under normal circumstances. It has the capability of repayment on principal and interest. Though uncertain factors lies, it is extremely unlikely to downgrade Risk Grading.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk measurement *(Continued)*

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

Group's internal rating scale *(Continued)*

Group's rating	**Description of the grade**
6	Borrower currently has repayment capabilities for principal and interest with possibilities of default. Uncertainties might impact repayment and downgrade Risk Grading. Generally, effective guarantees are required for continued access to financing.
7	Borrower is more likely to default in despite of having certain level of debt serving capacity. However, uncertainties will materially affect its solvency. Very effective guarantees are required for continued access to financing.
8	Borrower has defaulted or is very likely to default with an obvious difficulty in debt serving capacity. Normal operating income fails to ensure full repayment of principal and interest. A certain loss may still occur even with the guarantees.
9	Borrower has defaulted without full repayment of principal and interest. More serious loss may still occur even with the guarantees.
10	Borrower's severe default results in full or partial loan loss after taking all feasible actions and necessary legal procedures.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk measurement *(Continued)*

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

Exposure at default is based on the amounts the Group expects to be owed at the time of default. For example, it is the face value for a loan. For a commitment, the Group includes any amount already drawn plus any further amount that may have been drawn by the time of default, should it occur.

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

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

(ii) Retail loans: the Group monitored the overdue status of its loans and advances to retail customers in managing the credit risk. The Group identifies credit exposures by industry, geography and customer risk. This information is monitored regularly by senior management.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk measurement *(Continued)*

(b) Debt securities

For debt securities and other bills (other than those issued by PRC Ministry of Finance, PBOC and state policy banks), external ratings (such as Standard and Poor's) are used by the Group for managing the credit risk. The investment in those securities and bills is to gain better credit quality while maintaining readily available funding sources.

(c) Loans to banks and other financial institutions

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

3.1.2 Risk limit control and mitigation policies

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

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

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

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

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

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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

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

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

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

(a) Collateral (Continued)

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

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

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

(b) Derivatives

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

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

(c) Master netting arrangements

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

3.1.3 Impairment and provisioning policies

The internal rating systems described in Note 3.1.1 focus more on credit-quality mapping from the inception of lending activities. In contrast, impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment (see Note 2(E)). Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

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

- Delinquency in contractual payments of principal or interest;

- Cash flow difficulties experienced by the borrower (e.g., equity ratio, net income percentage of sales);

- Breach of loan covenants or conditions;

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Impairment and provisioning policies *(Continued)*

- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral;

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

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

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

Group

	As at 31 December	
	2008	2007
Assets		
Due from other banks and financial institutions	331,511	156,110
Financial assets held for trading	26,936	19,340
Loans and advances to customers		
— Loans to corporate entities	1,097,191	912,841
— Loans to individuals	201,585	169,947
Investment securities — loans and receivables	90,903	66,693
Investment securities — available-for-sale	142,010	146,454
Investment securities — held-to-maturity	367,878	326,953
Other financial assets	21,935	13,102
	2,279,949	1,811,440
Off-balance sheet exposures		
Financial guarantees, acceptance and letter of credit	374,381	364,677
Other credit related commitments	102,501	71,276
	476,882	435,953

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements: (Continued)

Bank

	As at 31 December	
	2008	2007
Assets		
Due from other banks and financial institutions	330,861	154,976
Financial assets held for trading	26,735	19,323
Loans and advances to customers		
— Loans to corporate entities	1,097,088	912,113
— Loans to individuals	201,406	169,947
Investment securities — loans and receivables	90,467	66,693
Investment securities — available-for-sale	141,601	145,045
Investment securities — held-to-maturity	367,799	326,953
Other financial assets	13,723	11,184
	2,269,680	1,806,234
Off-balance sheet exposures		
Financial guarantees, acceptance and letter of credit	374,381	364,677
Other credit related commitments	102,501	71,276
	476,882	435,953

The above table represents a worse case scenario of credit risk exposure to the Group at 31 December 2008 and 2007, without taking account of any related collateral or other credit enhancements. For on-balance-sheet assets, the exposures above are based on net carrying amounts as reported in the balance sheet.

As shown above, 57% of the total on balance sheet maximum exposure is derived from loans and advances to customers (2007: 60%).

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

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

(Continued)

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

- 91% of the corporate loans and advances portfolio is categorised in grade 1-5 of the internal rating system (2007: 89%);

- Mortgage loans, which represent the biggest group in the individual portfolio, are backed by collateral;

- 97% of the loans and advances portfolio are considered to be neither past due nor impaired (2007: 97%);

- The impaired loan and advances balance is 1.92% of the total 1,328,590 million loans and advances.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances

Loans and advances are summarised as follows:

Group

	31 December 2008		31 December 2007	
	Loans and advances to customers	Due from other banks and financial institutions	Loans and advances to customers	Due from other banks and financial institutions
Neither past due nor impaired	1,293,318	331,498	1,072,912	156,096
Past due but not impaired	9,752	13	8,884	14
Individually impaired	25,520	213	22,694	314
Gross	1,328,590	331,724	1,104,490	156,424
Less: Collective impairment allowances	(13,431)	—	(7,690)	—
Individual impairment allowances	(16,383)	(213)	(14,012)	(314)
Net	1,298,776	331,511	1,082,788	156,110

Bank

	31 December 2008		31 December 2007	
	Loans and advances to customers	Due from other banks and financial institutions	Loans and advances to customers	Due from other banks and financial institutions
Neither past due nor impaired	1,293,036	330,848	1,072,184	154,962
Past due but not impaired	9,752	13	8,884	14
Individually impaired	25,520	213	22,694	314
Gross	1,328,308	331,074	1,103,762	155,290
Less: Collective impairment allowances	(13,431)	—	(7,690)	—
Individual impairment allowances	(16,383)	(213)	(14,012)	(314)
Net	1,298,494	330,861	1,082,060	154,976

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances (Continued)

The total impairment allowance for loans and advances is RMB29,814 million (2007: RMB21,702 million) of which RMB16,383 million (2007: RMB14,012 million) represents those for individually impaired loans and the remaining amount of RMB13,431 million (2007: RMB7,690 million) represents the portfolio allowance. Further information of the impairment allowance for loans and advances to banks and to customers is provided in Note 20.

During the year ended 31 December 2008, the Group's total loans and advances increased by 20% as a result of the expansion of the lending business, especially in Mainland China. When entering into new markets or new industries, in order to minimise the potential increase of credit risk exposure, the Group focused more on the business with large corporate enterprises or other financial institutions with good credit rating or retail customers with sufficient collateral.

(a) Loans and advances neither past due nor impaired

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

Group

31 December 2008

	Grade 1–5	Grade 6–7	Grade 8–10	Total
Corporate entities				
— Commercial loans	929,692	67,647	978	998,317
— Trade finance	96,712	1,577	35	98,324
Total	1,026,404	69,224	1,013	1,096,641
Individual				
— Mortgages				119,753
— Credit Cards				23,947
— Other				52,977
Total				196,677

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

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

Bank

31 December 2008

	Grade 1–5	Grade 6–7	Grade 8–10	Total
Corporate entities				
— Commercial loans	929,589	67,647	978	998,214
— Trade finance	96,712	1,577	35	98,324
Total	1,026,301	69,224	1,013	1,096,538
Individual				
— Mortgages				119,753
— Credit Cards				23,947
— Other				52,798
Total				196,498

Group

31 December 2007

	Grade 1–5	Grade 6–7	Grade 8–10	Total
Corporate entities				
— Commercial loans	773,164	77,336	912	851,412
— Trade finance	52,454	3,118	—	55,572
Total	825,618	80,454	912	906,984
Individual				
— Mortgages				109,048
— Credit Cards				7,609
— Other				49,271
Total				165,928

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

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

Bank

31 December 2007

	Grade 1–5	Grade 6–7	Grade 8–10	Total
Corporate entities				
— Commercial loans	772,436	77,336	912	850,684
— Trade finance	52,454	3,118	—	55,572
Total	824,890	80,454	912	906,256
Individual				
— Mortgages				109,048
— Credit Cards				7,609
— Other				49,271
Total				165,928

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

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

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

Group and Bank

31 December 2008

	Past due up to 30 days	Past due 30-60 days	Past due 60-90 days	Past due over 90 days	Total	Fair value of collateral
Corporate entities						
— Commercial loans	663	861	170	2,595	4,289	3,127
Individuals						
— Mortgages	1,607	820	374	488	3,289	6,261
— Credit Cards	664	216	—	—	880	—
— Other	625	238	115	316	1,294	2,974
Total	3,559	2,135	659	3,399	9,752	12,362
Due from other banks and financial institutions	—	—	—	13	13	16

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

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

Group and Bank

31 December 2007

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

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

(c) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the collateral held is RMB25,520 million (2007: RMB22,694 million).

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

Group and Bank

	As at 31 December	
	2008	2007
Corporate entities	22,602	20,971
Individuals	2,918	1,723
Individually identified loans with impairment	25,520	22,694
Fair value of collaterals	6,791	6,481

The total gross amount of individually impaired due from other banks and financial institutions as at 31 December 2008 was RMB213 million (2007: 314 million). No collateral is held by the Group, and a full provision has been provided against the gross amount.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

(d) Loans and advances renegotiated

Restructuring activities include approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular mid-term and long-term loans. Renegotiated loans that would otherwise be past due or impaired totaled RMB5,315 million at 31 December 2008 (2007: RMB6,047 million).

Group and Bank

	31 December 2008	31 December 2007
Corporate entities	5,315	6,047

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

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

Group

	31 December 2008	%	31 December 2007	%
Domestic regions				
— Beijing	173,332	13	143,486	13
— Jiangsu	161,873	12	131,598	12
— Shanghai	146,712	11	111,489	10
— Guangdong	116,286	9	107,862	10
— Zhejiang	113,840	9	92,536	8
— Shandong	64,410	5	56,141	5
— Henan	46,670	4	40,521	4
— Hubei	45,103	3	39,000	4
— Sichuan	44,069	3	35,975	3
— Others	342,451	26	281,367	25
Domestic regions total	1,254,746	95	1,039,975	94
Hong Kong and overseas countries	73,844	5	64,515	6
Gross amount of loans and advances before allowance for impairment	1,328,590	100	1,104,490	100

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

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

Bank

	31 December 2008	%	31 December 2007	%
Domestic regions				
— Beijing	173,332	13	143,486	13
— Jiangsu	161,873	12	131,598	12
— Shanghai	146,712	11	111,489	10
— Guangdong	116,286	9	107,862	10
— Zhejiang	113,840	9	92,536	8
— Shandong	64,410	5	56,141	5
— Henan	46,670	4	40,521	4
— Hubei	45,003	3	39,000	4
— Sichuan	44,066	3	35,975	3
— Others	342,451	26	281,367	25
Domestic regions total	1,254,643	95	1,039,975	94
Hong Kong and overseas countries	73,665	5	63,787	6
Gross amount of loans and advances before allowance for impairment	1,328,308	100	1,103,762	100

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances (Continued)

(f) *Industry analysis*

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

Group

	31 December 2008	%	31 December 2007	%
Corporate loans				
Manufacturing				
— Petroleum and chemical	60,331	5	51,599	5
— Electronics	23,680	2	22,465	2
— Steel smelting and processing	33,766	2	27,845	3
— Machinery	67,141	5	52,823	5
— Textile	22,102	2	24,124	2
— Other manufacturing	114,481	9	99,850	9
Transportation	148,935	10	121,578	11
Electricity	105,541	8	76,751	7
Wholesale and retail	108,559	8	95,153	8
Services	49,990	4	37,267	3
Real estate	88,568	6	77,592	7
Utilities	92,207	7	79,411	7
Construction	52,261	4	46,206	4
Energy and Mining	20,279	2	14,451	1
Recreation and entertainment	20,560	2	22,065	2
Accommodation and catering	13,977	1	10,366	1
IT and telecommunication service	8,200	1	12,149	1
Financial institutions	10,164	1	13,808	1
Others	13,057	1	15,033	2
Corporate loans total	1,053,799	80	900,536	81
Mortgage loans	133,415	10	112,941	11
Medium-term and long-term working capital loans	23,873	2	22,709	2
Short-term working capital loans	16,883	1	11,333	1
Car loans	4,271	—	4,534	—
Credit card advances	20,453	2	7,929	1
Others	6,163	—	13,028	1
Individual loans total	205,058	15	172,474	16
Discounted bills	69,733	5	31,480	3
Gross amount of loans and advances before allowance for impairment	1,328,590	100	1,104,490	100

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

(f) *Industry analysis (Continued)*

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

Bank

	31 December 2008	%	31 December 2007	%
Corporate loans				
Manufacturing				
— Petroleum and chemical	60,331	5	51,599	5
— Electronics	23,680	2	22,465	2
— Steel smelting and processing	33,766	2	27,845	3
— Machinery	67,141	5	52,823	5
— Textile	22,102	2	24,124	2
— Other manufacturing	114,481	9	99,850	9
Transportation	148,935	10	121,578	11
Electricity	105,541	8	76,751	7
Wholesale and retail	108,559	8	95,153	8
Services	49,990	4	37,267	3
Real estate	88,568	6	77,592	7
Utilities	92,207	7	79,411	7
Construction	52,261	4	46,206	4
Energy and Mining	20,279	2	14,451	1
Recreation and entertainment	20,560	2	22,065	2
Accommodation and catering	13,977	1	10,366	1
IT and telecommunication service	8,200	1	12,149	1
Financial institutions	10,164	1	13,808	1
Others	12,954	1	14,305	2
Corporate loans total	1,053,696	80	899,808	81
Mortgage loans	133,415	10	112,941	11
Medium-term and long-term working capital loans	23,873	2	22,709	2
Short-term working capital loans	16,883	1	11,333	1
Car loans	4,271	—	4,534	—
Credit card advances	20,453	2	7,929	1
Others	5,984	—	13,028	1
Individual loans total	204,879	15	172,474	16
Discounted bills	69,733	5	31,480	3
Gross amount of loans and advances before allowance for impairment	1,328,308	100	1,103,762	100

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

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

Group

	31 December 2008	31 December 2007
Domestic		
Corporate entities		
State owned entities	338,387	287,406
Collective owned entities	7,459	10,110
Private unlimited companies	56,782	58,099
Private limited companies	337,754	283,080
Joint stock companies	117,741	89,930
Foreign invested enterprises	124,496	110,805
Other domestic entities	13,498	12,329
	996,117	851,759
Individuals	190,904	157,527
	1,187,021	1,009,286
Hong Kong and Overseas		
Corporate entities	57,682	48,777
Individuals	14,154	14,947
	71,836	63,724
Discounted bills	69,733	31,480
Gross amount of loans and advances before allowance for impairment	1,328,590	1,104,490

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

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

Bank

	31 December 2008	31 December 2007
Domestic		
Corporate entities		
State owned entities	338,387	287,406
Collective owned entities	7,459	10,110
Private unlimited companies	56,782	58,099
Private limited companies	337,651	283,080
Joint stock companies	117,741	89,930
Foreign invested enterprises	124,496	110,805
Other domestic entities	13,498	12,329
	996,014	851,759
Individuals	190,904	157,527
	1,186,918	1,009,286
Hong Kong and Overseas		
Corporate entities	57,682	48,049
Individuals	13,975	14,947
	71,657	62,996
Discounted bills	69,733	31,480
Gross amount of loans and advances before allowance for impairment	1,328,308	1,103,762

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Investment securities

The table below presents an analysis of investment securities, excluding derivatives, by independent rating agencies designation at 31 December 2008 and 2007:

Group

2008

	Investment securities— loans and receivables	Investment securities— available-for-sale ("AFS")	Investment securities— held-to-maturity ("HTM")	Financial assets held for trading[(1)]	Total
RMB securities					
AAA	25	34,734	39,783	10,847	85,389
AA- to AA+	400	112	5,707	55	6,274
A- to A+	—	384	325	2	711
BBB- to BBB+	—	20	20	45	85
Unrated[(2)]	90,341	78,537	320,409	7,568	496,855
Sub-total	90,766	113,787	366,244	18,517	589,314
Foreign currency securities					
AAA	137	6,378	111	643	7,269
AA- to AA+	—	7,409	147	320	7,876
A- to A+	—	13,145	1,273	2,008	16,426
BBB- to BBB+	—	408	7	331	746
Unrated[(2)]	—	883	96	461	1,440
Sub-total	137	28,223	1,634	3,763	33,757
Total	90,903	142,010	367,878	22,280	623,071

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Investment securities *(Continued)*

Bank

2008

	Investment securities — loans and receivables	Investment securities — available-for-sale ("AFS")	Investment securities — held-to-maturity ("HTM")	Financial assets held for trading(1)	Total
RMB securities					
AAA	25	34,734	39,783	10,847	85,389
AA- to AA+	400	112	5,707	55	6,274
A- to A+	—	384	325	2	711
BBB- to BBB+	—	20	20	45	85
Unrated(2)	89,905	78,349	320,409	7,561	496,224
Sub-total	90,330	113,599	366,244	18,510	588,683
Foreign currency securities					
AAA	137	6,378	111	643	7,269
AA- to AA+	—	7,409	147	320	7,876
A- to A+	—	13,145	1,263	2,008	16,416
BBB- to BBB+	—	408	—	331	739
Unrated(2)	—	662	34	267	963
Sub-total	137	28,002	1,555	3,569	33,263
Total	90,467	141,601	367,799	22,079	621,946

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Investment securities *(Continued)*

Group

2007

	Investment securities — loans and receivables	Investment securities — available-for-sale ("AFS")	Investment securities — held-to-maturity ("HTM")	Financial assets held for trading(1)	Total
RMB securities					
AAA	45	20,232	24,332	3,128	47,737
AA- to AA+	400	47	3,959	—	4,406
A- to A+	—	180	144	—	324
BBB- to BBB+	—	—	20	—	20
Unrated(2)	65,590	92,313	295,687	11,120	464,710
Sub-total	66,035	112,772	324,142	14,248	517,197
Foreign currency securities					
AAA	292	2,021	—	1	2,314
AA- to AA+	365	16,888	72	240	17,565
A- to A+	—	9,075	420	1,306	10,801
BBB- to BBB+	—	325	—	384	709
Unrated(2)	1	5,373	2,319	823	8,516
Sub-total	658	33,682	2,811	2,754	39,905
Total	66,693	146,454	326,953	17,002	557,102

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Investment securities *(Continued)*

Bank

2007

	Investment securities — loans and receivables	Investment securities — available-for-sale ("AFS")	Investment securities — held-to-maturity ("HTM")	Financial assets held for trading[1]	Total
RMB securities					
AAA	45	20,232	24,332	3,128	47,737
AA- to AA+	400	47	3,959	—	4,406
A- to A+	—	180	144	—	324
BBB- to BBB+	—	—	20	—	20
Unrated[2]	65,590	91,944	295,687	11,103	464,324
Sub-total	66,035	112,403	324,142	14,231	516,811
Foreign currency securities					
AAA	292	2,021	—	1	2,314
AA- to AA+	365	16,888	72	240	17,565
A- to A+	—	9,075	420	1,306	10,801
BBB- to BBB+	—	325	—	384	709
Unrated[2]	1	4,333	2,319	823	7,476
Sub-totals	658	32,642	2,811	2,754	38,865
Total	66,693	145,045	326,953	16,985	555,676

(1) The Financial assets held for trading does not include derivatives of RMB4,656 million (2007: RMB2,338 million).

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Investment securities *(Continued)*

The amount of overdue debt securities is RMB99 million as at 31 December 2008 (2007: RMB106 million). And the total gross amount of individually impaired debt securities as at 31 December 2008 is RMB2,317 million (2007: RMB846 million). No collateral is held by the Group, and the impairment provision is RMB1,501 million as at 31 December 2008 (2007: RMB816 million).

3.1.7 Repossessed assets

Group and Bank

	As at 31 December	
	2008	2007
Residential property	6	10
Business property	317	374
Others	58	109
Total	381	493

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

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

Geographical sectors

Group

	Mainland China	Hong Kong	Others	Total
As at 31 December 2008				
Financial Assets				
Due from other banks and financial institutions	293,975	28,914	8,622	331,511
Financial assets held for trading	22,357	3,380	1,199	26,936
Loans and advances to customers	1,225,993	56,460	16,323	1,298,776
Investment securities — loans and receivables	90,903	—	—	90,903
Investment securities — available-for-sale	123,972	13,204	4,834	142,010
Investment securities — held-to-maturity	366,541	79	1,258	367,878
Other financial assets	20,263	1,399	273	21,935
As at 31 December 2008	2,144,004	103,436	32,509	2,279,949

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

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

Geographical sectors *(Continued)*

Bank

	Mainland China	Hong Kong	Others	Total
As at 31 December 2008				
Financial Assets				
Due from other banks and financial institutions	293,820	28,419	8,622	330,861
Financial assets held for trading	22,350	3,186	1,199	26,735
Loans and advances to customers	1,225,890	56,281	16,323	1,298,494
Investment securities — loans and receivables	90,467	—	—	90,467
Investment securities — available-for-sale	123,784	12,983	4,834	141,601
Investment securities — held-to-maturity	366,541	—	1,258	367,799
Other financial assets	12,218	1,232	273	13,723
As at 31 December 2008	2,135,070	102,101	32,509	2,269,680

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

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

Geographical sectors *(Continued)*

Group

	Mainland China	Hong Kong	Others	Total
As at 31 December 2007				
Financial Assets				
Due from other banks and financial institutions	130,745	22,971	2,394	156,110
Financial assets held for trading	16,347	2,415	578	19,340
Loans and advances to customers	1,019,208	51,922	11,658	1,082,788
Investment securities — loans and receivables	66,693	—	—	66,693
Investment securities — available-for-sale	123,015	18,427	5,012	146,454
Investment securities — held-to-maturity	324,673	—	2,280	326,953
Other financial assets	8,488	2,424	2,190	13,102
As at 31 December 2007	1,689,169	98,159	24,112	1,811,440

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

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

Geographical sectors *(Continued)*

Bank

	Mainland China	Hong Kong	Others	Total
As at 31 December 2007				
Financial Assets				
Due from other banks and financial institutions	129,611	22,971	2,394	154,976
Financial assets held for trading	16,330	2,415	578	19,323
Loans and advances to customers	1,019,208	51,194	11,658	1,082,060
Investment securities — loans and receivables	66,693	—	—	66,693
Investment securities — available-for-sale	123,321	16,712	5,012	145,045
Investment securities — held-to-maturity	324,673	—	2,280	326,953
Other financial assets	7,701	1,293	2,190	11,184
As at 31 December 2007	1,687,537	94,585	24,112	1,806,234

Total financial assets are based on the country/region in which the counter-parties are located.

3.2 Market risk

3.2.1 Overview

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group separates exposures to market risk into either trading or non-trading portfolios.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.1 Overview *(Continued)*

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

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

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

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

3.2.2 Sensitivity tests

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.2 Sensitivity tests *(Continued)*

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

	Net interest income	
	2009	2008
+100 basis point parallel move in all yield curves	5,175	4,477
–100 basis point parallel move in all yield curves	(5,175)	(4,477)

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

	Equity	
	31 December 2008	31 December 2007
+100 basis point parallel move in all yield curves	(1,971)	(1,351)
–100 basis point parallel move in all yield curves	2,088	1,380

The interest rate sensitivities set out in the table above are illustrative only and are based on simplified scenarios. The figures represent the effect on projected net interest income and reported equity of the pro forma movements of the yield curve on the Group's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by the Group to mitigate the impact of this interest rate risk. The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net interest income due to changes in certain rates while others remain unchanged. The projections make other simplifying assumptions too, including that all positions run to maturity.

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.2 Sensitivity tests *(Continued)*

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

Group

	Net Profit/(Loss)	
	2008	2007
+5% appreciation of Renminbi	(903)	(1,066)
–5% appreciation of Renminbi	903	1,066

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

Group

	Equity	
	31 December 2008	31 December 2007
+5% appreciation of Renminbi	(196)	(299)
–5% appreciation of Renminbi	196	299

3.2.3 Interest rate risk

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Interest rate risk *(Continued)*

The Group operates its business predominantly in Mainland China under the interest rate scheme regulated by the PBOC. According to the PBOC regulations, there is no ceiling for loan interest rates, whilst the floor for loan interest rates is 10% below the stipulated rates. It is normal practice for the interest rates of both interest-bearing assets and liabilities to move in the same direction. The Group conducts most of its domestic businesses including loans and deposits as well as the majority of financial guarantees and credit related commitments based upon basic interest rates. Consequently, the Group is less vulnerable to interest rate risk. However, there is no guarantee that the PBOC will continue this practice in the future.

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

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

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

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Interest rate risk *(Continued)*

Group

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2008							
Assets							
Cash and balances with central banks	350,671	–	–	–	–	11,509	362,180
Due from other banks and financial institutions	257,234	38,937	34,827	500	–	13	331,511
Financial assets held for trading	1,194	2,777	9,644	6,670	1,985	4,666	26,936
Loans and advances to customers	592,895	154,941	506,161	29,236	15,543	–	1,298,776
Investment securities							
– loans and receivables	625	9,659	34,542	45,116	961	–	90,903
– available-for-sale	11,104	30,575	44,575	39,576	14,336	1,844	142,010
– held-to-maturity	10,756	14,664	75,665	148,980	117,813	–	367,878
Other assets, including deferred tax assets	45	–	–	–	–	62,708	62,753
Total assets	1,224,524	251,553	705,414	270,078	150,638	80,740	2,682,947
Liabilities							
Due to other banks and financial institutions	(297,945)	(43,131)	(100,875)	(117,436)	(10,066)	–	(569,453)
Financial liabilities held for trading	(174)	–	(3,066)	(1,098)	–	(5,675)	(10,013)
Due to customers	(1,143,065)	(206,636)	(408,649)	(95,308)	(503)	(11,654)	(1,865,815)
Other liabilities, including deferred tax liabilities	(179)	(818)	(12,405)	(12,000)	(16,000)	(46,169)	(87,571)
Total liabilities	(1,441,363)	(250,585)	(524,995)	(225,842)	(26,569)	(63,498)	(2,532,852)
Total interest sensitivity gap	(216,839)	968	180,419	44,236	124,069	17,242	150,095

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Interest rate risk *(Continued)*

Bank

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2008							
Assets							
Cash and balances with central banks	350,651	–	–	–	–	11,508	362,159
Due from other banks and financial institutions	256,890	38,937	34,521	500	–	13	330,861
Financial assets held for trading	1,003	2,777	9,644	6,670	1,985	4,656	26,735
Loans and advances to customers	592,895	154,941	505,879	29,236	15,543	–	1,298,494
Investment securities							
– loans and receivables	625	9,659	34,542	44,680	961	–	90,467
– available-for-sale	11,104	30,575	44,575	39,571	14,336	1,440	141,601
– held-to-maturity	10,756	14,664	75,665	148,901	117,813	–	367,799
Investments in and due from subsidiaries	–	–	–	–	–	3,586	3,586
Other assets, including deferred tax assets	45	–	–	–	–	53,021	53,066
Total assets	1,223,969	251,553	704,826	269,558	150,638	74,224	2,674,768
Liabilities							
Due to other banks and financial institutions	(297,883)	(42,481)	(96,875)	(117,096)	(10,066)	–	(564,401)
Financial liabilities held for trading	(174)	–	(3,066)	(1,098)	–	(5,675)	(10,013)
Due to customers	(1,143,058)	(206,636)	(408,649)	(95,308)	(503)	(11,654)	(1,865,808)
Other liabilities, including deferred tax liabilities	(498)	(818)	(12,405)	(12,000)	(16,000)	(43,303)	(85,024)
Total liabilities	(1,441,613)	(249,935)	(520,995)	(225,502)	(26,569)	(60,632)	(2,525,246)
Total interest sensitivity gap	(217,644)	1,618	183,831	44,056	124,069	13,592	149,522

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Interest rate risk (Continued)

Group

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2007							
Assets							
Cash and balances with central banks	246,088	–	–	–	–	15,345	261,433
Due from other banks and financial institutions	128,579	16,047	10,469	26	–	989	156,110
Financial assets held for trading	2,426	6,649	4,794	2,622	511	2,338	19,340
Loans and advances to customers	382,070	140,887	504,763	26,999	28,069	–	1,082,788
Investment securities							
– loans and receivables	7	1,433	1,848	62,442	963	–	66,693
– available-for-sale	19,904	32,627	48,677	26,604	14,594	4,048	146,454
– held-to-maturity	8,553	16,315	90,649	121,814	89,622	–	326,953
Other assets, including deferred tax assets	57	–	–	–	–	50,616	50,673
Total assets	787,684	213,958	661,200	240,507	133,759	73,336	2,110,444
Liabilities							
Due to other banks and financial institutions	(229,304)	(21,597)	(16,547)	(50,650)	(14,341)	(117)	(332,556)
Financial liabilities held for trading	–	(876)	(3,520)	(2,312)	(1)	(3,319)	(10,028)
Due to customers	(1,036,111)	(139,334)	(288,262)	(75,787)	(6)	(16,099)	(1,555,599)
Other liabilities, including deferred tax liabilities	(200)	(852)	(12,355)	(9,000)	(16,000)	(40,533)	(78,940)
Total liabilities	(1,265,615)	(162,659)	(320,684)	(137,749)	(30,348)	(60,068)	(1,977,123)
Total interest sensitivity gap	(477,931)	51,299	340,516	102,758	103,411	13,268	133,321

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Interest rate risk *(Continued)*

Bank

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2007							
Assets							
Cash and balances with central banks	246,088	–	–	–	–	12,919	259,007
Due from other banks and financial institutions	127,445	16,047	10,469	26	–	989	154,976
Financial assets held for trading	2,409	6,649	4,794	2,622	511	2,338	19,323
Loans and advances to customers	382,070	140,887	504,763	26,999	27,341	–	1,082,060
Investment securities							
– loans and receivables	7	1,433	1,848	62,442	963	–	66,693
– available-for-sale	19,904	32,627	48,677	26,604	14,594	2,639	145,045
– held-to-maturity	8,553	16,315	90,649	121,814	89,622	–	326,953
Investments in and due from subsidiaries	–	–	–	–	–	5,184	5,184
Other assets, including deferred tax assets	–	–	–	–	–	46,629	46,629
Total assets	786,476	213,958	661,200	240,507	133,031	70,698	2,105,870
Liabilities							
Due to other banks and financial institutions	(229,304)	(21,597)	(16,547)	(50,650)	(14,341)	(117)	(332,556)
Financial liabilities held for trading	–	(876)	(3,520)	(2,312)	(1)	(3,319)	(10,028)
Due to customers	(1,036,111)	(139,334)	(288,262)	(75,787)	(6)	(16,099)	(1,555,599)
Other liabilities, including deferred tax liabilities	(200)	(852)	(12,355)	(9,000)	(16,000)	(36,932)	(75,339)
Total liabilities	(1,265,615)	(162,659)	(320,684)	(137,749)	(30,348)	(56,467)	(1,973,522)
Total interest sensitivity gap	(479,139)	51,299	340,516	102,758	102,683	14,231	132,348

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Foreign exchange risk

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Foreign exchange risk *(Continued)*

Group

	RMB	US Dollars	HK Dollars	Others	Total
As at 31 December 2008					
Assets					
Cash and balances with central banks	357,043	3,906	715	516	362,180
Due from other banks and financial institutions	246,293	58,354	11,342	15,522	331,511
Financial assets held for trading	20,751	4,493	417	1,275	26,936
Loans and advances to customers	1,187,772	61,781	44,353	4,870	1,298,776
Investment securities-loans and receivables	90,766	137	–	–	90,903
Investment securities-available-for-sale	113,787	19,013	3,166	6,044	142,010
Investment securities-held-to-maturity	366,244	1,256	100	278	367,878
Other assets, including deferred tax assets	56,769	2,132	3,486	366	62,753
Total assets	2,439,425	151,072	63,579	28,871	2,682,947
Liabilities					
Due to other banks and financial institutions	(495,908)	(62,888)	(4,882)	(5,775)	(569,453)
Financial liabilities held for trading	(3,094)	(2,786)	(3,357)	(776)	(10,013)
Due to customers	(1,733,666)	(57,155)	(58,063)	(16,931)	(1,865,815)
Other liabilities, including deferred tax liabilities	(81,766)	(2,849)	(1,794)	(1,162)	(87,571)
Total liabilities	(2,314,434)	(125,678)	(68,096)	(24,644)	(2,532,852)
Net position	124,991	25,394	(4,517)	4,227	150,095
Financial guarantees and credit related commitments	352,750	82,167	17,149	24,816	476,882

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Foreign exchange risk *(Continued)*

Bank

	RMB	US Dollars	HK Dollars	Others	Total
As at 31 December 2008					
Assets					
Cash and balances with central banks	357,022	3,906	715	516	362,159
Due from other banks and financial institutions	246,135	58,354	10,850	15,522	330,861
Financial assets held for trading	20,744	4,493	223	1,275	26,735
Loans and advances to customers	1,187,669	61,781	44,174	4,870	1,298,494
Investment securities-loans and receivables	90,330	137	–	–	90,467
Investment securities-available-for-sale	113,599	19,013	2,945	6,044	141,601
Investment securities-held-to-maturity	366,244	1,183	94	278	367,799
Investments in and due from subsidiaries	2,261	(25)	1,350	–	3,586
Other assets, including deferred tax assets	48,555	2,132	2,013	366	53,066
Total assets	2,432,559	150,974	62,364	28,871	2,674,768
Liabilities					
Due to other banks and financial institutions	(490,856)	(62,888)	(4,882)	(5,775)	(564,401)
Financial liabilities held for trading	(3,094)	(2,786)	(3,357)	(776)	(10,013)
Due to customers	(1,733,659)	(57,155)	(58,063)	(16,931)	(1,865,808)
Other liabilities, including deferred tax liabilities	(79,538)	(2,849)	(1,475)	(1,162)	(85,024)
Total liabilities	(2,307,147)	(125,678)	(67,777)	(24,644)	(2,525,246)
Net position	125,412	25,296	(5,413)	4,227	149,522
Financial guarantees and credit related commitments	352,750	82,167	17,149	24,816	476,882

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Foreign exchange risk *(Continued)*

Group

	RMB	US Dollars	HK Dollars	Others	Total
As at 31 December 2007					
Assets					
Cash and balances with central banks	257,268	2,567	1,156	442	261,433
Due from other banks and financial institutions	107,813	30,542	9,557	8,198	156,110
Financial assets held for trading	16,018	1,745	577	1,000	19,340
Loans and advances to customers	977,599	58,006	41,868	5,315	1,082,788
Investment securities-loans and receivables	66,036	657	—	—	66,693
Investment securities-available-for-sale	112,772	21,866	4,813	7,003	146,454
Investment securities-held-to-maturity	324,142	1,391	99	1,321	326,953
Other assets, including deferred tax assets	36,966	912	9,009	3,786	50,673
Total assets	1,898,614	117,686	67,079	27,065	2,110,444
Liabilities					
Due to other banks and financial institutions	(294,330)	(23,250)	(6,232)	(8,744)	(332,556)
Financial liabilities held for trading	(231)	(3,136)	(6,293)	(368)	(10,028)
Due to customers	(1,434,575)	(55,515)	(50,285)	(15,224)	(1,555,599)
Other liabilities, including deferred tax liabilities	(67,034)	(7,639)	(3,890)	(377)	(78,940)
Total liabilities	(1,796,170)	(89,540)	(66,700)	(24,713)	(1,977,123)
Net position	102,444	28,146	379	2,352	133,321
Financial guarantees and credit related commitments	295,899	91,180	25,376	23,498	435,953

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Foreign exchange risk *(Continued)*

Bank

	RMB	US Dollars	HK Dollars	Others	Total
As at 31 December 2007					
Assets					
Cash and balances with central banks	255,326	2,567	672	442	259,007
Due from other banks and financial institutions	106,679	30,542	9,557	8,198	154,976
Financial assets held for trading	16,001	1,745	577	1,000	19,323
Loans and advances to customers	977,599	58,006	41,140	5,315	1,082,060
Investment securities-loans and receivables	66,036	657	—	—	66,693
Investment securities-available-for-sale	112,403	21,866	3,773	7,003	145,045
Investment securities-held-to-maturity	324,142	1,391	99	1,321	326,953
Investments in and due from subsidiaries	2,970	—	2,214	—	5,184
Other assets, including deferred tax assets	36,377	912	5,553	3,787	46,629
Total assets	1,897,533	117,686	63,585	27,066	2,105,870
Liabilities					
Due to other banks and financial institutions	(294,330)	(23,250)	(6,232)	(8,744)	(332,556)
Financial liabilities held for trading	(231)	(3,136)	(6,293)	(368)	(10,028)
Due to customers	(1,434,575)	(55,515)	(50,285)	(15,224)	(1,555,599)
Other liabilities, including deferred tax liabilities	(65,574)	(7,639)	(1,749)	(377)	(75,339)
Total liabilities	(1,794,710)	(89,540)	(64,559)	(24,713)	(1,973,522)
Net position	102,823	28,146	(974)	2,353	132,348
Financial guarantees and credit related commitments	295,899	91,180	25,376	23,498	435,953

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk

3.3.1 Overview

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

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, matured deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Board set limits on the minimum proportion of funds to be made available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover different levels of unexpected withdrawals. In addition, the Bank limits its loan to deposit ratio at below 75% as required by the PBOC. As at 31 December 2008 15.5% (14.5% as at 31 December 2007) of the Bank's total RMB denominated deposits and 5% (5% as at 31 December 2007) of the total foreign currency denominated deposits must be deposited with PBOC.

3.3.2 Liquidity risk management process

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

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers;

- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

- Monitoring balance sheet liquidity ratios against internal and regulatory requirements;

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.2 Liquidity risk management process *(Continued)*

- Managing the concentration and profile of debt maturities centrally at head office; and centrally utilization the Bank's liquid assets;

- Setting up contingency plan, regular monitoring and precaution mechanism; establish crisis management plan;

- Enhancing the liquidity management of overseas branches.

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

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative cash flows

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

Group

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2008						
Liabilities						
Due to other banks and financial institution	(298,428)	(43,825)	(106,953)	(137,634)	(11,028)	(597,868)
Financial liabilities held for trading	(188)	(22)	(3,122)	(1,117)	—	(4,449)
Due to customers	(1,155,774)	(211,633)	(421,108)	(117,077)	(613)	(1,906,205)
Subordinated term debts	(49)	(997)	(12,848)	(15,748)	(18,643)	(48,285)
Other financial liabilities	(11,555)	(109)	(254)	(493)	(1,802)	(14,213)
Total liabilities (contractual maturity dates)	(1,465,994)	(256,586)	(544,285)	(272,069)	(32,086)	(2,571,020)

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative cash flows *(Continued)*

Bank

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2008						
Liabilities						
Due to other banks and financial institution	(298,366)	(43,175)	(102,953)	(137,294)	(11,028)	(592,816)
Financial liabilities held for trading	(188)	(22)	(3,122)	(1,117)	—	(4,449)
Due to customers	(1,155,767)	(211,633)	(421,108)	(117,077)	(613)	(1,906,198)
Subordinated term debts	(49)	(997)	(12,848)	(15,748)	(18,643)	(48,285)
Other financial liabilities	(11,323)	(109)	(254)	(493)	(1,217)	(13,396)
Total liabilities (contractual maturity dates)	(1,465,693)	(255,936)	(540,285)	(271,729)	(31,501)	(2,565,144)

Group

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative cash flows *(Continued)*

Bank

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

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 Derivative cash flows

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

(a) Derivatives settled on a net basis

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

- Foreign exchange derivatives: non-delivery forward.
- Interest rate derivatives: interest rate swaps, forward rate agreements and OTC interest rate options.

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

Group and Bank

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2008						
Derivatives held for trading:						
— Foreign exchange derivatives	(55)	(136)	(227)	–	–	(418)
— Interest rate derivatives	(225)	(139)	(578)	(1,197)	(566)	(2,705)
Total	(280)	(275)	(805)	(1,197)	(566)	(3,123)

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 Derivative cash flows *(Continued)*

(a) Derivatives settled on a net basis (Continued)

Group and Bank

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

(b) Derivatives settled on a gross basis

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

- Foreign exchange derivatives: currency forward, currency swaps; and

- Interest rate derivatives: cross currency interest rate swaps.

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 Derivative cash flows *(Continued)*

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

Group and Bank

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2008						
Derivatives held for trading:						
Foreign exchange derivatives						
– Outflow	(38,930)	(24,184)	(65,392)	(13,910)	–	(142,416)
– Inflow	38,594	23,966	65,194	13,707	–	141,461
Interest rate derivatives						
– Outflow	(1,140)	(49)	(420)	(1,175)	(656)	(3,440)
– Inflow	1,213	46	402	1,130	646	3,437
Total outflow	(40,070)	(24,233)	(65,812)	(15,085)	(656)	(145,856)
Total inflow	39,807	24,012	65,596	14,837	646	144,898

Group and Bank

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 Off-balance sheet items

(a) Loan commitments

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

(b) Acceptances, letter of credit and other financial facilities

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

(c) Operating lease commitments

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 Off-balance sheet items *(Continued)*

(d) Capital commitments

Capital commitments for the acquisition of buildings and equipment (Note 34) are summarised in the table below.

Group and Bank

At 31 December 2008

	No later than 1 year	1–5 years	Over 5 years	Total
Loan commitments	95,564	6,187	750	102,501
Acceptances, letter of credit and other financial facilities	216,036	3,427	–	219,463
Operating lease commitments	1,014	2,454	972	4,440
Capital commitments	30	327	–	357
Total	312,644	12,395	1,722	326,761

At 31 December 2007

	No later than 1 year	1–5 years	Over 5 years	Total
Loan commitments	59,369	10,794	1,113	71,276
Acceptances, letter of credit and other financial facilities	202,871	4,035	–	206,906
Operating lease commitments	769	1,756	636	3,161
Capital commitments	203	–	–	203
Total	263,212	16,585	1,749	281,546

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities

The total amount of the change in fair value estimated using a valuation technique that was recognized in profit and loss account as a loss during the year is RMB559 million (2007: loss of RMB1,622 million).

The following table summarizes the carrying amounts and the approximate fair values of those financial assets and liabilities not presented on the Group's and the Bank's balance sheet at their fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities, where instruments are quoted in the active market.

Group

	31 December 2008		31 December 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Due from other banks and financial institutions	331,511	331,755	156,110	156,110
Loans and advances to customers	1,298,776	1,299,429	1,082,788	1,082,184
Investment securities				
— loans and receivables	90,903	93,219	66,693	64,556
— held to maturity	367,878	387,302	326,953	319,145
Financial liabilities				
Due to other banks and financial institutions	(569,453)	(572,485)	(332,556)	(332,533)
Due to customers	(1,865,815)	(1,869,061)	(1,555,599)	(1,553,233)
Subordinated term debt	(40,000)	(40,454)	(37,000)	(34,573)

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

Bank

	31 December 2008		31 December 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Due from other banks and financial institutions	330,861	331,105	154,976	154,976
Loans and advances to customers	1,298,494	1,299,147	1,082,060	1,081,456
Investment securities				
— loans and receivables	90,467	92,784	66,693	64,556
— held to maturity	367,799	387,222	326,953	319,145
Due from/(to) subsidiaries	(1,196)	(1,196)	539	539
Financial liabilities				
Due to other banks and financial institutions	(564,401)	(569,576)	(332,556)	(332,533)
Due to customers	(1,865,808)	(1,869,054)	(1,555,599)	(1,553,233)
Subordinated term debt	(40,000)	(40,454)	(37,000)	(34,573)

The fair value of those financial assets and liabilities such as amounts due from/to other banks and financial institutions, loans and advances to customers and customer deposits approximate to the carrying value as the interest rates of most of these assets and liabilities are instantaneously adjusted to changes in interest rates set by the PBOC and other regulatory bodies. The Group only has an insignificant amount of fixed rate deposits due to and from other banks and financial institutions, deposits due to customers and loans and advances due from customers.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

Due from other banks and financial institutions

Due from other banks and financial institutions includes inter-bank placements and items in the course of collection. The fair values of floating rate placements and overnight deposits are their carrying amounts. The estimated fair value of fixed interest bearing deposits, which are normally less than one year, is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturities. Therefore, the fair value of due from other banks and financial institutions approximate its carrying value.

Loans and advances to customers

Loans and advances to customers are stated net of impairment allowance. All except a very insignificant portion of loans and advances to customers bear interest at a floating rate. Therefore, the carrying value of loans and advances to customers is a reasonable estimate of fair value.

Investment securities

Investment securities include interest-bearing loans and receivables securities and held to maturity securities, as available-for-sale securities are measured at fair value. The fair value is determined by following the hierarchy given below:

— the price used in recent transactions of similar financial instruments with adjustment when the market conditions have changed.

— valuation techniques, including: cash flow models etc.

— if fair value cannot be measured reliably, equity and security investments are recognised at cost less impairment.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

Due to other banks and financial institutions and customers

The estimated fair value of liabilities due to other banks and financial institutions and customers with no stated maturity, which includes non-interest-bearing liabilities due to other banks and financial institutions and customers, is the amount repayable on demand. The fair value of floating rate liabilities due to other banks and customers is their carrying amount. The estimated fair value of fixed interest bearing liabilities due to other banks and financial institutions and customers without quoted market price, which are normally less than one year, is based on discounted cash flows using interest rates for new debts with similar remaining maturities. Therefore, the fair value of due to other banks and financial institutions and customers is approximately equal to its carrying value.

Subordinated term debt

The fair value of floating rate subordinated term debts is approximately equal to its carrying amount. The fair value of fixed interest bearing subordinated term debts is calculated using a discounted cash flow model which is based on a current yield curve appropriate for the remaining term to maturity.

3.5 Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored quarterly by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBRC, for supervisory purposes. The required information is filed with the CBRC on a quarterly basis.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.5 Capital management *(Continued)*

The CBRC requires each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%, and a core capital ratio of above 4%. The Group's capital as monitored by its Planning and Finance department is divided into two tiers:

- Core capital: Paid up ordinary share capital, capital surplus, statutory reserve, statutory general reserve, discretionary reserve, retained earnings and minority interest; and

- Supplementary capital: Revaluation reserve for properties and AFS securities, collectively assessed impairment allowance for impaired assets and regulatory reserve, qualified portion of subordinated term debts.

Goodwill, unconsolidated investment in financial associates and investments in non-financial related entities are deducted from Core and Supplementary capital to arrive at the capital.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of — and reflecting an estimate of credit, market and other risks associated with — each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposures, with some adjustments to reflect the more contingent nature of the potential losses.

The capital adequacy ratio that the Group submitted to the Regulators is calculated in accordance with the formula promulgated by CBRC. The table below summarises the composition of regulatory capital and the ratios of the Group that submitted to the Regulators for the years ended 31 December on 6 February 2009.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.5 Capital management *(Continued)*

	31 December 2008	31 December 2007
Core capital:		
Paid up ordinary share capital	48,994	48,994
Capital surplus	37,888	38,614
Reserves	26,863	14,360
Retained earnings	17,973	17,780
Minority interest	433	418
	132,151	120,166
Supplementary capital:		
Revaluation reserve for properties	3,718	4,097
Impairment allowances for impaired assets and regulatory reserves	19,549	15,027
Term subordinated debt	27,400	29,800
Others	4,049	—
Gross value of supplementary capital	54,716	48,924
Eligible value of supplementary capital	54,716	48,924
Total capital base before deductions	186,867	169,090
Deductions:		
Goodwill	(200)	(200)
Unconsolidated investments in financial institutions	(706)	(426)
Investments in enterprises	(514)	(606)
	(1,420)	(1,232)
Total capital base after deductions	185,447	167,858
Risk-weighted assets:		
On-balance sheet risk-weighted assets	1,194,962	987,297
Off-balance sheet risk-weighted assets	156,476	151,990
Total risk-weighted assets	1,351,438	1,139,287
Market risk capital	2,000	1,865
Capital adequacy ratio	13.47%	14.44%
Core capital adequacy ratio	9.54%	10.27%

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.6 Fiduciary activities

The Group provides custody and trustee services to third parties. Those assets that are held in a fiduciary capacity are not included in the financial statements. And the Group grants entrusted loans on behalf of third-party lenders, which are also not included in the financial statements.

Group and Bank

	As at 31 December	
	2008	2007
Investment custody accounts	466,213	567,934
Wealth Management	40,639	3,771
Entrusted loan	125,719	112,333

4 NET INTEREST INCOME

Group

	Year ended 31 December	
	2008	2007
Interest income		
Balances with central banks	4,985	3,438
Due from other banks and financial institutions	6,907	5,971
Loans and advances to customers	82,784	65,417
Investment securities	22,430	15,493
	117,106	90,319
Interest expense		
Due to other banks and financial institutions	(13,541)	(10,182)
Due to customers	(37,703)	(26,194)
	(51,244)	(36,376)
Net interest income	65,862	53,943

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

4 NET INTEREST INCOME *(Continued)*

Group *(Continued)*

	Year ended 31 December 2008	2007
Interest income on listed investments	3,634	3,458
Interest income on unlisted investments	18,796	12,035
Interest income accrued on loans and advances to customers individually identified with impairment	555	654

5 FEE AND COMMISSION INCOME

Group

	Year ended 31 December 2008	2007
Settlement and agent service commission income	2,045	1,744
Bank card annual fee and commission income	2,938	2,017
Guarantee and commitment commission income	912	399
Custodian commission income	667	530
Fund sales commission income	853	2,191
Fund management commission income	590	614
Financial consulting income	1,081	244
Other commission income	1,035	506
	10,121	8,245

	Year ended 31 December 2008	2007
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value	84	30
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	667	530

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

6 FEE AND COMMISSION EXPENSE

Group

	Year ended 31 December	
	2008	2007
Settlement and agent service commission expense	283	526
Syndicated loan commission expense	81	107
Bank card commission expense	715	272
Other commission expense	205	245
	1,284	1,150

	Year ended 31 December	
	2008	2007
Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value	81	107

7 DIVIDEND INCOME

Group

	Year ended 31 December	
	2008	2007
Available-for-sale investments — listed	2	1
Available-for-sale investments — unlisted	81	76
	83	77

8 GAINS LESS LOSSES ARISING FROM TRADING ACTIVITIES

Group

	Year ended 31 December	
	2008	2007
Foreign exchange	1,205	65
Interest rate instruments	352	185
	1,557	250

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

8 GAINS LESS LOSSES ARISING FROM TRADING ACTIVITIES *(Continued)*

Net income on foreign exchange includes gains and losses from spot and forward contracts, currency swaps, currency options, currency futures and from the translation of foreign currency monetary assets and liabilities into Renminbi.

Net income on interest rate instruments includes the results of marking securities held for trading, interest rate swaps, cross currency interest rate swaps, interest rate options and other interest rate derivatives to market.

9 OTHER OPERATING INCOME

Group

	Year ended 31 December	
	2008	2007
Profit on sales of land use rights and buildings	47	99
Sales of foreclosed assets and other assets	60	423
Revaluation surplus of investment property	—	13
Finance lease income	288	17
Other miscellaneous income	316	215
	711	767

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

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

10 IMPAIRMENT LOSSES

Group

	Year ended 31 December 2008	2007
Due from other banks and financial institutions and securities purchased under resale agreements, net (Note 17(b))	(25)	(113)
Loans and advances to customers (Note 20(b))		
— Collectively assessed provision	5,855	2,016
— Individually assessed provision, net	4,890	4,599
	10,745	6,615
Less: recovery of loans previously written off	(30)	(122)
	10,690	6,380

11 OTHER OPERATING EXPENSES

Group

	Year ended 31 December 2008	2007
Staff costs (Note 12)	11,747	9,458
General and administrative expenses	6,206	5,277
Depreciation (Note 22)	3,006	2,665
Business tax and surcharges	4,923	3,664
Operating lease rentals	1,245	994
Impairment of investment securities ((a), Note 21)	1,090	692
Reversal of revaluation deficit of property and equipment (Note 22)	(3)	(70)
Reversal of impairment allowance of other receivables	(67)	(592)
Regulator's supervision fee	302	273
Outstanding Compensation	370	—
Reversal of provision for outstanding litigation	(331)	(120)
Amortization of intangible assets	228	223
Professional fees	70	68
Amortization of land use rights	6	10
Impairment of finance lease receivable (Note 23(c))	76	—
Revaluation deficit of investment property	19	—
Others	1,980	2,753
	30,867	25,295

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

11 OTHER OPERATING EXPENSES *(Continued)*

(a) Net impairment losses on investment securities

Group

	Year ended 31 December	
	2008	2007
Loans and receivables (Note 21)	—	(28)
Held-to-maturity (Note 21)	5	—
Available-for-sale (Note 21)	1,085	720
Net charge of impairment losses	1,090	692

12 STAFF COSTS

Group

	Year ended 31 December	
	2008	2007
Salaries and bonus	8,468	6,290
Pension costs (Note 29)	908	1,186
Housing benefits and subsidies	534	583
Other social security and benefit costs	1,837	1,399
	11,747	9,458

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

13 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT's EMOLUMENTS

(a) Directors' and supervisors' taxable emoluments (In RMB Yuan)

	Year ended 31 December						
	2008						2007
Name	Emoluments	Salary	Discretionary bonuses	Other benefits	Employer's contribution to pension scheme	Total	Total
Executive directors							
Mr. Hu, Huaibang	–	310,000	87,500	40,954	780	439,234	NA
Mr. Li, Jun	–	1,240,000	350,000	157,769	3,007	1,750,776	1,878,306
Mr. Peng, Chun	–	992,000	310,000	127,565	3,007	1,432,572	1,591,768
Mr. Qian, Wenhui	–	992,000	310,000	127,559	3,007	1,432,566	1,577,218
Non-executive directors							
Mr. Jiang, Chaoliang	–	930,000	262,500	116,815	2,226	1,311,541	1,951,832
Mr. Zhang, Jixiang	–	869,200	247,000	112,517	3,007	1,231,724	1,376,801
Mr. Hu, Huating	–	868,000	247,000	112,463	3,007	1,230,470	1,368,329
Mr. Qian, Hongyi	–	–	–	–	–	–	NA
Mr. Wang, Dongshen	15,000	–	–	–	–	15,000	15,000
Mr. Ji, Guoqiang	10,000	–	–	–	–	10,000	NA
Mr. Lei, Jun	10,000	–	–	–	–	10,000	NA
Mr. Li, Keping	5,000	–	–	–	–	5,000	15,000
Mr. Li, Zexing	NA	NA	NA	NA	NA	NA	30,000
Mr. Gao, Shiqing	5,000	–	–	–	–	5,000	10,000
Mr. Yang, Fenglin	–	–	–	–	–	–	–
Mr. Shen, Weiming	NA	NA	NA	NA	NA	NA	15,000
Mr. Li, Guanglin	NA	NA	NA	NA	NA	NA	10,000
Mr. Qian, Ping	NA	NA	NA	NA	NA	NA	–
Ms. Shi, Meilun	10,000	–	–	–	–	10,000	20,000
Mr. Xie, Qingjian	–	125,000	–	–	–	125,000	216,667
Mr. Ian Ramsay Wilson	–	250,000	–	–	–	250,000	216,667
Mr. Thomas Joseph Manning	–	250,000	–	–	–	250,000	216,667
Mr. Chen, Qingtai	–	125,000	–	–	–	125,000	216,667
Mr. Gu, Ming Chao	–	125,000	–	–	–	125,000	83,333
Mr. Li, Jia Xiang	–	250,000	–	–	–	250,000	216,667
Mr. Timothy David Dattels	–	–	–	–	–	–	–

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

13 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT's EMOLUMENTS *(Continued)*

(a) Directors' and supervisors' taxable emoluments (In RMB Yuan) *(Continued)*

	Year ended 31 December						
	2008						2007
Name	Emoluments	Salary	Discretionary bonuses	Other benefits	Employer's contribution to pension scheme	Total	Total
Supervisors							
Mr. Hua. Qingshan	–	1,240,000	350,000	157,769	3,007	1,750,776	568,959
Mr. Zheng, Li	–	100,000	–	–	–	100,000	66,667
Mr. Jiang, Zuqi	–	100,000	–	–	–	100,000	66,667
Mr. Guan, Zhenyi	20,000	–	–	–	–	20,000	5,000
Mr. Yang, Fajia	5,000	–	–	–	–	5,000	5,000
Mr. Wang, Lisheng	20,000	–	–	–	–	20,000	5,000
Mr. Li, Jin	10,000	–	–	–	–	10,000	5,000
Mr. Yan, Hong	5,000	–	–	–	–	5,000	NA
Ms. Liu, Sha	–	637,515	531,000	96,000	3,503	1,268,018	1,218,524
Ms. Chen, Qing	–	641,320	532,000	67,727	3,007	1,244,054	960,409
Mr. Shuai, Shi	–	298,250	164,583	20,402	1,300	484,535	NA
Mr. Liu, Qiang	10,000	–	–	–	–	10,000	131,667
Mr. Lee, Jun	–	299,332	–	36,374	1,707	337,413	966,937
Mr. Cui, Leiping	NA	NA	NA	NA	NA	NA	1,457,973
Mr. Ning, Jinbiao	NA	NA	NA	NA	NA	NA	10,000
Mr. Teng, Tieqi	NA	NA	NA	NA	NA	NA	–
Mr. Ji, Keliang	NA	NA	NA	NA	NA	NA	10,000
Ms. Chen, Zheng	NA	NA	NA	NA	NA	NA	116,667
Total	125,000	10,642,617	3, 391,583	1,173,914	30,565	15,363,679	16,620,392

* NA: Not applicable

Above listed amounts only include emoluments of the Directors or Supervisors during their tenure of Director or Supervisor. Mr. Li, Jun was appointed as the governor of the Bank in September 2006 and he did not receive the full emoluments of the post as at the end of 2007. Mr. Hua. Qingshan was appointed as the head of supervisors' committee on 28 August 2007.

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

13 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT's EMOLUMENTS *(Continued)*

(b) Five Highest Paid Individuals

The five highest paid individuals in the Bank for the related years are as follows

	Year ended 31 December 2008	2007
Salary	6	4
Discretionary bonuses	3	3
Employer's contribution to pension scheme and other benefits	1	2
	10	9

Emoluments of above five highest paid individuals in the Bank are within the following bands

	Number of employees 2008	2007
RMB1,000,000–RMB1,500,000	1	—
RMB1,500,000–RMB2,000,000	2	5
RMB2,000,000–RMB2,500,000	2	—
	5	5

During the year, no emolument was paid by the Bank to any of the directors or supervisors as an inducement to join or upon joining the Bank or as compensation for loss of office.

In 2008, RMB1,500,000 was accrued for independent non-executive directors' emolument (2007: RMB1,250,000).

(c) Share-based compensation

On 18 November 2005, the Board resolved to grant certain cash settled share appreciation rights ("SARs") to several senior executives of head office under long term incentive plan. According to the resolution, the initial grant of SARs targeted at senior executives of the head office as at 23 June 2005. The exercise price of each SAR is HK$2.5, which was the issue price of the H share at the time of its initial public offering. The amount of the initial grant of the SARs was 7.558 million shares. The SARs was valid for a period of ten years from 23 June 2005, with a two-year vesting period.

13 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT's EMOLUMENTS *(Continued)*

(c) Share-based compensation *(Continued)*

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

During the year 2008, no SAR was granted and exercised. Benefits arising from the granting of these SARs were recognized in the consolidated profit and loss account but not included in the directors' emoluments disclosed above.

Movements in the number of SARs outstanding are as follows

Group and Bank

	Year ended at 31 December	
	2008 Number of shares (In millions)	2007 Number of shares (In millions)
Outstanding at beginning of the period	11	11
Granted	—	—
Outstanding at end of the period	11	11

The fair value of SARs using Binomial Option Pricing model at 31 December 2008 is RMB14.36 million (31 December 2007: RMB36 million).

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

14 INCOME TAX EXPENSE

Group

	Year ended 31 December 2008	2007
Current tax		
— Mainland China income tax	8,285	9,346
— Hong Kong profits tax	11	282
— Overseas taxation	(52)	15
	8,244	9,643
Deferred tax (Note 28)	(1,015)	1,069
	7,229	10,712

The Corporate Income Tax Law of the People's Republic of China came into effect on 1 January 2008. The applicable income tax rate of the Bank and each of its subsidiaries established in Mainland China has been adjusted to 25%.

Profits earned by the Hong Kong branch or subsidiaries in Hong Kong are subject to Hong Kong profits tax at the rate of 16.5% (2007: 17.5%), on the estimated assessable profit for the year ended 31 December 2008. Taxation on other overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the Group operates during the year ended 31 December 2008.

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

14 INCOME TAX EXPENSE *(Continued)*

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Group at 25% (2007: 33%). The reconciliation is as follows:

	Year ended 31 December 2008	2007
Profit before tax	35,719	31,114
Tax calculated at a tax rate of 25% (2007: 33%)	8,930	10,268
Effect of different tax rates in other countries	10	24
Tax credit arising from income not subject to tax[a]	(1,974)	(1,332)
Tax effect of expenses that are not deductible for tax purposes[b]	264	360
Tax rate change impact	(1)	1,392
Income tax expense	7,229	10,712

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

(b) The expenses that are not tax deductible of the Group mainly represents a portion of expenditure, such as payroll, entertainment expenses etc, which is over the tax deduction limits in accordance with PRC tax regulation.

15 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December 2008	2007
Profit attributable to shareholders of the Bank	28,393	20,274
Weighted average number of ordinary shares in issue	48,994	47,931
Basic and diluted earnings per share (expressed in RMB per share)	0.58	0.42

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

16 CASH AND BALANCES WITH CENTRAL BANKS

Group

	As at 31 December	
	2008	2007
Cash	11,509	14,753
Balances with central banks other than mandatory reserve deposits	98,484	46,528
Included in cash and cash equivalents (Note 37(b))	109,993	61,281
Mandatory reserve deposits	252,187	200,152
	362,180	261,433

Bank

	As at 31 December	
	2008	2007
Cash	11,508	12,327
Balances with central banks other than mandatory reserve deposits	98,465	46,528
Included in cash and cash equivalents	109,973	58,855
Mandatory reserve deposits	252,186	200,152
	362,159	259,007

The Group is required to place mandatory deposits with central banks. The deposits are calculated based on the amount of deposits placed with the Group by its customers.

	As at 31 December	
	2008	2007
Mandatory reserve rate for deposits denominated in RMB	15.5%	14.5%
PBOC reserve rate for deposits denominated in foreign currencies	5%	5%

Mandatory reserve deposits with central banks are not available for use by the Group in its day to day operations.

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

17 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

(a) Due from other banks and financial institutions

Group

	As at 31 December	
	2008	2007
Placement with other banks and included in cash equivalents (Note 37(b))	115,739	34,783
Securities purchased under resale agreement	96,816	50,849
Loans purchased under resale agreement	29,417	22,112
Loans and advances to other banks	80,193	42,622
Loans to other financial institutions	9,559	6,058
	89,752	48,680
Less: Individual impairment allowance on amounts due from other banks and financial institutions	(213)	(314)
	89,539	48,366
	331,511	156,110

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

17 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS *(Continued)*

(a) Due from other banks and financial institutions *(Continued)*

Bank

	As at 31 December	
	2008	2007
Placement with other banks and included in cash equivalents	115,202	33,649
Securities purchased under resale agreement	96,703	50,849
Loans purchased under resale agreement	29,417	22,112
Loans and advances to other banks	80,193	42,622
Loans to other financial institutions	9,559	6,058
	89,752	48,680
Less: Individual impairment allowance on amounts due from other banks and financial institutions	(213)	(314)
	89,539	48,366
	330,861	154,976

(b) Movements in allowance for impairment losses on amounts due from other banks and financial institutions

Group and Bank

	Year ended 31 December	
	2008	2007
Balance at beginning of the year	314	626
Impairment allowances (Note 10)	—	52
Reversal of impairment (Note 10)	(25)	(165)
Amount written off during the year as uncollectible	(76)	(199)
Balance at end of the year	213	314

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

17 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS *(Continued)*

(c) Impaired amount of due from other banks and financial institutions

Group and Bank

	As at 31 December 2008	2007
Impaired amount of due from other banks and financial institutions	213	314
Impaired amount of due from other banks and financial institutions to total balance of due from other banks and financial institutions (percentage)	0.06%	0.20%

18 FINANCIAL ASSETS HELD FOR TRADING

Group

	As at 31 December 2008	2007
Derivative financial instruments (Note 19)	4,656	2,338
Government bonds		
— Listed in Hong Kong	—	—
— Listed outside Hong Kong	442	506
— Unlisted	3,882	6,000
Other debt securities		
— Listed in Hong Kong	788	620
— Listed outside Hong Kong	805	439
— Unlisted — corporate bonds	11,130	2,849
— Unlisted — public sector	282	52
— Unlisted — banking sector	4,951	6,536
	26,936	19,340

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

Trading securities at fair value of RMB18.72 million (2007: RMB486 million) were pledged to third parties in repurchase agreements.

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

18 FINANCIAL ASSETS HELD FOR TRADING *(Continued)*

Bank

	As at 31 December	
	2008	2007
Derivative financial instruments (Note 19)	4,656	2,338
Government bonds		
— Listed in Hong Kong	—	—
— Listed outside Hong Kong	442	506
— Unlisted	3,882	6,000
Other debt securities		
— Listed in Hong Kong	788	620
— Listed outside Hong Kong	604	439
— Unlisted — corporate bonds	11,130	2,832
— Unlisted — public sector	282	52
— Unlisted — banking sector	4,951	6,536
	26,735	19,323

19 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative instruments are utilized by the Group for trading purpose:

Currency forwards represent commitments to purchase/sell foreign exchanges including unsettled spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

19 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

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

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer (OTC).

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

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

19 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Group and Bank

	Contract/notional	Fair values	
	Amount	Assets	Liabilities
As at 31 December 2008			
Foreign exchange contracts	167,252	1,995	(2,780)
Interest rate contracts	119,649	2,661	(2,895)
Total derivatives		4,656	(5,675)

Group and Bank

	Contract/notional	Fair values	
	Amount	Assets	Liabilities
As at 31 December 2007			
Foreign exchange contracts	154,261	1,653	(2,620)
Interest rate contracts	87,565	685	(699)
Others derivative contracts	14	—	—
Total derivatives		2,338	(3,319)

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

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

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

19 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Credit risk weighted amounts

Group and Bank

	As at 31 December	
	2008	2007
Derivatives		
— Exchange rate contracts	938	846
— Interest rate contracts	625	287
— Other derivative contracts	—	2
	1,563	1,135

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

Replacement costs

Group and Bank

	As at 31 December	
	2008	2007
Derivatives		
— Exchange rate contracts	1,995	1,653
— Interest rate contracts	2,661	685
	4,656	2,338

Replacement cost is the cost of replacing all contracts which have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking contracts to market.

The credit risk weighted amounts and replacement costs stated above have taken the effects of netting arrangements into account.

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

19 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Notional amounts of derivative financial instruments by original currency

Group and Bank

	RMB	US Dollars	HK Dollars	Others	Total
As at 31 December 2008					
Notional amount of derivative financial instruments	158,670	97,090	16,039	15,102	286,901
As at 31 December 2007					
Notional amount of derivative financial instruments	110,038	98,854	22,673	10,275	241,840

20 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

Group

	As at 31 December	
	2008	2007
Loans and advances to customers	1,328,590	1,104,490
Less: collective impairment allowances	(13,431)	(7,690)
Individual impairment allowances	(16,383)	(14,012)
	1,298,776	1,082,788

Bank

	As at 31 December	
	2008	2007
Loans and advances to customers	1,328,308	1,103,762
Less: collective impairment allowances	(13,431)	(7,690)
Individual impairment allowances	(16,383)	(14,012)
	1,298,494	1,082,060

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

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(b) Movements in allowance for losses on loans and advances

Group and Band

	As at 31 December			
	2008		2007	
	Collectively accessed	Individually impaired	Collectively accessed	Individually impaired
Balance at beginning of year	7,690	14,012	5,705	11,280
Impairment allowances for loans charged to profit and loss account	5,855	9,372	2,016	8,333
Reversal of impairment allowances for loans	—	(4,482)	—	(3,734)
Net impairment allowances for loans charged to profit and loss account (Note 10)	5,855	4,890	2,016	4,599
Unwind of discount on allowances	—	(555)	—	(654)
Loans written off during the year as uncollectible	—	(1,927)	—	(1,082)
Exchange difference	(114)	(37)	(31)	(131)
Balance at end of the year	13,431	16,383	7,690	14,012

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

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(b) Movements in allowance for losses on loans and advances *(Continued)*

Group and Bank

	As at 31 December			
	2008		2007	
	Corporate	Individual	Corporate	Individual
Balance at beginning of year	19,175	2,527	15,289	1,696
Impairment allowances for loans charged to profit and loss account	14,125	1,102	9,373	976
Reversal of impairment allowances for loans	(4,447)	(35)	(3,710)	(24)
Net impairment allowances for loans charged to profit and loss account (Note 10)	9,678	1,067	5,663	952
Unwind of discount on allowances	(476)	(79)	(600)	(54)
Loans written off during the year as uncollectible	(1,887)	(40)	(1,019)	(63)
Exchange difference	(149)	(2)	(158)	(4)
Balance at end of the year	26,341	3,473	19,175	2,527

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

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(c) Individually identified loans with impairment

Group and Bank

	31 December 2008		31 December 2007	
	Impaired loan	Specific Provision	Impaired loan	Specific Provision
Corporate	22,602	(14,823)	20,971	(13,092)
Individual	2,918	(1,560)	1,723	(920)
	25,520	(16,383)	22,694	(14,012)

Group and Bank

	As at 31 December	
	2008	2007
Individually identified loans with impairment to loans and advances to customers (percentage)	1.92%	2.05%

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

21 INVESTMENT SECURITIES

Group

	As at 31 December	
	2008	2007
Securities — loans and receivables		
Debt securities — at amortised cost		
— Unlisted	90,974	66,768
Allowance for loans and receivables	(71)	(75)
Loans & receivables securities, net	90,903	66,693
Securities — available-for-sale		
Debt securities — at fair value		
— Listed in Hong Kong	393	9,818
— Listed outside Hong Kong	20,434	8,529
— Unlisted	119,339	124,898
Debt securities, net	140,166	143,245
Equity securities — at fair value		
— Listed in Hong Kong	222	—
— Listed outside Hong Kong	820	1,938
— Unlisted	802	1,271
Equity securities, net	1,844	3,209
Securities — available-for-sale Total, net	142,010	146,454
Include: Market value of listed securities		
— available-for-sale	21,307	20,285

Listed debt securities at fair value of RMB8,463 million (2007: RMB9,908 million) were pledged to third parties under repurchase agreements.

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

21 INVESTMENT SECURITIES *(Continued)*

Group

	As at 31 December	
	2008	2007
Securities — held-to-maturity		
Debt securities — at amortized cost		
— Listed outside Hong Kong	133,318	65,584
— Unlisted	234,565	261,369
Allowance for debt securities	(5)	—
Held-to-maturity securities, net	367,878	326,953
Include: Market value of listed Held-to-maturity securities	140,982	81,810

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

21 INVESTMENT SECURITIES *(Continued)*

Bank

	As at 31 December 2008	2007
Securities — loans and receivables		
Debt securities — at amortised cost		
— Unlisted	90,538	66,768
Allowance for loans and receivables	(71)	(75)
Loans & receivables securities, net	90,467	66,693
Securities — available-for-sale		
Debt securities — at fair value		
— Listed in Hong Kong	393	9,818
— Listed outside Hong Kong	20,434	8,529
— Unlisted	119,334	124,898
Debt securities, net	140,161	143,245
Equity securities — at fair value		
— Listed in Hong Kong	2	—
— Listed outside Hong Kong	819	1,116
— Unlisted	619	684
Equity securities, net	1,440	1,800
Securities — available-for-sale Total, net	141,601	145,045
Include: Market value of listed securities — available-for-sale	21,086	19,463
Securities — held-to-maturity		
Debt securities-at amortized cost		
— Listed outside Hong Kong	133,249	65,584
— Unlisted	234,555	261,369
Allowance for debt securities	(5)	—
Held-to-maturity securities, net	367,799	326,953
Include: Market value of listed securities — Held-to-maturity	140,911	81,810

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

21 INVESTMENT SECURITIES *(Continued)*

The Group holds bonds issued by the PBOC as at 31 December 2008 amounting to RMB119,008 million (2007: RMB140,242 million). The related interest rate range on such bonds for the year ended 31 December 2008 was 1.89%–4.56%. (2007: 1.89%–4.47%)

Gains less losses arising from investment securities comprise:

Group and Bank

	As at 31 December 2008	2007
Gains less losses arising from de-recognition of investment securities	226	657

The movement in investment securities may be summarized as follows:

Group

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Before allowance				
Balance at 1 January 2008	66,768	147,433	326,953	541,154
Additions	27,068	216,264	119,800	363,132
Disposals (sale or redemption)	(2,836)	(217,529)	(78,536)	(298,901)
Gains from changes in fair value	—	891	—	891
Exchange differences	(26)	(3,381)	(334)	(3,741)
At 31 December 2008	90,974	143,678	367,883	602,535
Allowance for impairment loss				
Balance at 1 January 2008	(75)	(979)	—	(1,054)
Allowance for impairment	—	(1,118)	(5)	(1,123)
Amounts recovered during the year	—	33	—	33
Amounts written off during the year as uncollectible	4	377	—	381
Exchange differences	—	19	—	19
At 31 December 2008	(71)	(1,668)	(5)	(1,744)
Net book value				
At 31 December 2008	90,903	142,010	367,878	600,791

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

21 INVESTMENT SECURITIES *(Continued)*

Bank

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Before allowance				
Balance at 1 January 2008	66,768	146,024	326,953	539,745
Additions	26,632	216,264	119,721	362,617
Disposals (sale or redemption)	(2,836)	(217,255)	(78,536)	(298,627)
Gains from changes in fair value	—	1,568	—	1,568
Exchange differences	(26)	(3,332)	(334)	(3,692)
At 31 December 2008	90,538	143,269	367,804	601,611
Allowance for impairment loss				
Balance at 1 January 2008	(75)	(979)	—	(1,054)
Allowance for impairment	—	(1,118)	(5)	(1,123)
Amounts recovered during the year	—	33	—	33
Amounts written off during the year as uncollectible	4	377	—	381
Exchange differences	—	19	—	19
At 31 December 2008	(71)	(1,668)	(5)	(1,744)
Net book value				
At 31 December 2008	90,467	141,601	367,799	599,867

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

21 INVESTMENT SECURITIES *(Continued)*

Group

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Before allowance				
Balance at 1 January 2007	48,409	336,870	—	385,279
Reclassification	—	(231,434)	231,434	—
Additions	40,542	278,606	210,162	529,310
Disposals (sale or redemption)	(22,077)	(236,124)	(114,541)	(372,742)
Gains from changes in fair value	—	950	—	950
Exchange differences	(106)	(1,435)	(102)	(1,643)
At 31 December 2007	66,768	147,433	326,953	541,154
Allowance for impairment loss				
Balance at 1 January 2007	(103)	(290)	—	(393)
Allowance for impairment	—	(769)	—	(769)
Amounts recovered during the year	28	49	—	77
Amounts written off during the year as uncollectible	—	31	—	31
At 31 December 2007	(75)	(979)	—	(1,054)
Net book value				
At 31 December 2007	66,693	146,454	326,953	540,100

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

21 INVESTMENT SECURITIES *(Continued)*

Bank

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Before allowance				
Balance at 1 January 2007	48,409	336,224	—	384,633
Reclassification	—	(231,434)	231,434	—
Additions	40,542	278,282	210,162	528,986
Disposals (sale or redemption)	(22,077)	(236,124)	(114,541)	(372,742)
Gains from changes in fair value	—	579	—	579
Exchange differences	(106)	(1,503)	(102)	(1,711)
At 31 December 2007	66,768	146,024	326,953	539,745
Allowance for impairment loss				
Balance at 1 January 2007	(103)	(290)	—	(393)
Allowance for impairment	—	(769)	—	(769)
Amounts recovered during the year	28	49	—	77
Amounts written off during the year as uncollectible	—	31	—	31
At 31 December 2007	(75)	(979)	—	(1,054)
Net book value				
At 31 December 2007	66,693	145,045	326,953	538,691

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

21 INVESTMENT SECURITIES *(Continued)*

The investment securities are analysed by issuer as follows:

Group

	As at 31 December	
	2008	2007
Securities — loans and receivables		
— Central governments and central banks	63,988	65,591
— Public sector entities	—	146
— Banks and other financial institutions	962	838
— Corporate entities	25,953	118
	90,903	66,693
Securities — available-for-sale		
— Central governments and central banks	44,662	53,703
— Public sector entities	1,025	1,344
— Banks and other financial institutions	59,675	67,431
— Corporate entities	36,648	23,976
	142,010	146,454
Securities — held-to-maturity		
— Central governments and central banks	181,382	181,757
— Public sector entities	7,455	4,370
— Banks and other financial institutions	159,139	133,584
— Corporate entities	19,902	7,242
	367,878	326,953

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

21 INVESTMENT SECURITIES *(Continued)*

Bank

	As at 31 December	
	2008	2007
Securities — loans and receivables		
— Central governments and central banks	63,988	65,591
— Public sector entities	—	146
— Banks and other financial institutions	962	838
— Corporate entities	25,517	118
	90,467	66,693
Securities — available-for-sale		
— Central governments and central banks	44,662	53,704
— Public sector entities	1,025	1,344
— Banks and other financial institutions	59,488	67,431
— Corporate entities	36,426	22,566
	141,601	145,045
Securities — held-to-maturity		
— Central governments and central banks	181,383	181,757
— Public sector entities	7,453	4,370
— Banks and other financial institutions	159,067	133,584
— Corporate entities	19,896	7,242
	367,799	326,953

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

21 INVESTMENT SECURITIES *(Continued)*

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

Group and Bank

	As at 31 December	
	2008	2007
Available-for-sale, at fair value		
— Unlisted	—	318

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

Group and Bank

	As at 31 December	
	2008	2007
Up to 3 months	—	216
3 to 12 months	—	102
1 to 5 years	—	—
	—	318

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

22 PROPERTY AND EQUIPMENT

Group

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Leasehold Improvement	Total
Cost or valuation						
At 1 January 2008	23,769	4,028	5,982	244	1,520	35,543
Additions	1,118	3,082	2,260	68	455	6,983
Disposals	(1,184)	(288)	(965)	(8)	(83)	(2,528)
Transfers	1,362	(1,362)	—	—	—	—
Revaluation	(395)	7	—	—	—	(388)
At 31 December 2008	24,670	5,467	7,277	304	1,892	39,610
Accumulated depreciation						
At 1 January 2008	—	—	(2,567)	(5)	(772)	(3,344)
Charge for the period	(1,138)	—	(1,491)	(51)	(326)	(3,006)
Disposals	578	—	810	—	71	1,459
Revaluation	560	—	—	—	—	560
At 31 December 2008	—	—	(3,248)	(56)	(1,027)	(4,331)
Net book value						
At 31 December 2008	24,670	5,467	4,029	248	865	35,279
Carrying amount at 31 December 2008, if at cost	15,507	5,306	3,968	206	865	25,852

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

22 PROPERTY AND EQUIPMENT *(Continued)*

Group

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Leasehold Improvement	Total
Cost or valuation						
At 1 January 2007	21,615	787	4,888	135	1,201	28,626
Additions	927	4,012	1,775	114	399	7,227
Disposals	(511)	–	(681)	(5)	(80)	(1,277)
Transfers	764	(764)	–	–	–	–
Revaluation	974	(7)	–	–	–	967
At 31 December 2007	23,769	4,028	5,982	244	1,520	35,543
Accumulated depreciation						
At 1 January 2007	–	–	(1,889)	76	(529)	(2,342)
Charge for the period	(963)	–	(1,309)	(85)	(308)	(2,665)
Disposals	40	–	631	4	65	740
Reclassification	79	–	–	–	–	79
Revaluation	844	–	–	–	–	844
At 31 December 2007	–	–	(2,567)	(5)	(772)	(3,344)
Net book value						
At 31 December 2007	23,769	4,028	3,415	239	748	32,199
Carrying amount at 31 December 2007, if at cost	13,106	4,615	3,302	197	748	21,968

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

22 PROPERTY AND EQUIPMENT *(Continued)*

Bank

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Leasehold Improvement	Total
Cost or valuation						
At 1 January 2008	22,530	4,012	5,976	244	1,520	34,282
Additions	1,063	3,043	2,251	66	455	6,878
Disposals	(1,180)	(233)	(965)	(8)	(83)	(2,469)
Transfers	1,362	(1,362)	—	—	—	—
Revaluation	(118)	7	—	—	—	(111)
At 31 December 2008	23,657	5,467	7,262	302	1,892	38,580
Accumulated depreciation						
At 1 January 2008	—	—	(2,568)	(5)	(772)	(3,345)
Charge for the period	(1,093)	—	(1,488)	(51)	(326)	(2,958)
Disposals	578	—	810	—	71	1,459
Revaluation	515	—	—	—	—	515
At 31 December 2008	—	—	(3,246)	(56)	(1,027)	(4,329)
Net book value						
At 31 December 2008	23,657	5,467	4,016	246	865	34,251
Carrying amount at 31 December 2008, if at cost	14,957	5,306	3,962	204	865	25,294

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

22 PROPERTY AND EQUIPMENT *(Continued)*

Bank

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Leasehold Improvement	Total
Cost or valuation						
At 1 January 2007	20,255	940	4,888	135	1,201	27,419
Additions	925	3,996	1,769	114	399	7,203
Disposals	(422)	—	(681)	(5)	(80)	(1,188)
Transfers	917	(917)	—	—	—	—
Revaluation	855	(7)	—	—	—	848
At 31 December 2007	22,530	4,012	5,976	244	1,520	34,282
Accumulated depreciation						
At 1 January 2007	—	—	(1,889)	76	(529)	(2,342)
Charge for the period	(928)	—	(1,309)	(85)	(308)	(2,630)
Disposals	40	—	630	4	65	739
Reclassification	79	—	—	—	—	79
Revaluation	809	—	—	—	—	809
At 31 December 2007	—	—	(2,568)	(5)	(772)	(3,345)
Net book value						
At 31 December 2007	22,530	4,012	3,408	239	748	30,937
Carrying amount at 31 December 2007, if at cost	12,236	4,599	3,296	197	748	21,076

Pan-China Assets Appraisal Co., Ltd.（北京天健興業資產評估有限公司）was appointed as its external valuer for the Group's (excluding Hong Kong Branch) latest valuation exercise as at 31 December 2008 to revalue land and buildings, construction in progress, with reference to the open market value, while equipment and motor vehicles were not revalued due to their insignificance.

CB Richard Ellis Ltd. was appointed as the external valuer for the Hong Kong Branch's latest valuation exercise as at 31 December 2008 to revalue lands and buildings, construction in progress, with reference to the open market value, while the equipment and motor vehicles were not revalued due to their insignificance.

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

22 PROPERTY AND EQUIPMENT *(Continued)*

The revaluation reserve relating to revaluation of property and equipment is not distributable to shareholders.

The breakdown of revaluation surplus is as follows:

Group

	As at 31 December 2008	2007
Revaluation surplus classified in equity, net of tax	2	1,236
Deferred tax liability (Note 28)	177	521
Revaluation deficit reversal to profit and loss account (Note 11)	3	70
Exchange loss	(10)	(16)
	172	1,811

Bank

	As at 31 December 2008	2007
Revaluation surplus classified in equity, net of tax	205	1,107
Deferred tax liability	206	496
Revaluation deficit reversal of profit and loss account	3	70
Exchange loss	(10)	(16)
	404	1,657

All land and buildings of the Group are located outside Hong Kong, except for those of Hong Kong branch.

	As at 31 December 2008	2007
Net book value of land and buildings of Hong Kong Branch	1,065	1,396

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

22 PROPERTY AND EQUIPMENT *(Continued)*

According to relevant PRC laws and regulations, after conversion into a joint stock limited liability company, the Bank is required to re-register its property and equipment under the name of Bank of Communications Co., Ltd. As at 31 December 2008, the process of re-registration has not been completed. However, this registration process does not affect the rights of Bank of Communications Co., Ltd. to these assets.

The carrying value of land and buildings is analysed based on the remaining terms of the leases as follows:

Group

	As at 31 December	
	2008	2007
Held in Hong Kong		
on long-term lease (over 50 years)	864	1,140
on medium-term lease (10–50 years)	201	256
on short-term lease (less than 10 years)	—	—
	1,065	1,396
Held outside Hong Kong		
on long-term lease (over 50 years)	29	25
on medium-term lease (10–50 years)	23,570	22,345
on short-term lease (less than 10 years)	6	3
	23,605	22,373
	24,670	23,769

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

22 PROPERTY AND EQUIPMENT *(Continued)*

Bank

	As at 31 December	
	2008	2007
Held in Hong Kong		
on long-term lease (over 50 years)	864	1,140
on medium-term lease (10–50 years)	201	256
on short-term lease (less than 10 years)	—	—
	1,065	1,396
Held outside Hong Kong		
on long-term lease (over 50 years)	29	25
on medium-term lease (10–50 years)	22,557	21,106
on short-term lease (less than 10 years)	6	3
	22,592	21,134
	23,657	22,530

23 OTHER ASSETS

Group

	As at 31 December	
	2008	2007
Interest receivable	11,535	9,037
Settlement accounts	1,878	1,254
Other receivables	2,146	4,524
Less: impairment allowance	(1,155)	(1,511)
Foreclosed assets	381	493
Prepaid staff housing subsidies	66	81
Prepaid rental expenses	262	279
Land use rights (a)	843	575
Intangible assets	724	877
Including: Goodwill	*200*	*200*
Investment property (b)	109	136
Finance leasing, receivable (c)	7,564	126
Less: impairment allowance	(76)	—
Others	504	79
	24,781	15,950

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

23 OTHER ASSETS *(Continued)*

Bank

	As at 31 December 2008	2007
Interest receivable	11,535	8,296
Settlement accounts	1,038	1,254
Other receivables	1,986	2,809
Less: impairment allowance	(1,155)	(1,511)
Foreclosed assets	381	493
Prepaid staff housing subsidies	66	81
Prepaid rental expenses	262	279
Land use rights	843	575
Intangible assets	514	677
Investment property	109	136
Others	500	79
	16,079	13,168

(a) Land use rights is analysed based on the remaining terms of the leases as follows:

Group and Bank

	For the year ended 2008	2007
Held outside Hong Kong		
on long-term lease (over 50 years)	—	—
on medium-term lease (10–50 years)	690	558
on short-term lease (less than 10 years)	153	17
	843	575

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

23 OTHER ASSETS *(Continued)*

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

Group and Bank

	For the year ended	
	2008	2007
Held in Hong Kong		
on long-term lease (over 50 years)	44	55
on medium-term lease (10–50 years)	65	81
	109	136

(c) The "finance leases receivables" is as follows:

Group

	As at 31 December	
	2008	2007
Minimum finance lease receivable		
No later than 1 year	2,468	51
Later than 1 year and no later than 5 years	4,797	90
Later than 5 years	1,561	—
Total	8,826	141
Gross investment in finance leases	8,826	141
Unearned finance income	(1,262)	(15)
Net investment in finance leases	7,564	126
The net investment in finance leases is analyzed as follows:		
No later than 1 year	2,048	44
Later than 1 year and no later than 5 years	4,202	82
Later than 5 years	1,314	—
	7,564	126
The allowance for uncollectible finance lease receivable	(76)	—
Net finance lease receivable	7,488	126

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

24 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

Group

	As at 31 December	
	2008	2007
Deposits from other banks	83,376	8,958
Deposits from other financial institutions	399,699	254,576
Loans from other banks	51,563	41,302
Securities sold under repurchase agreements	6,782	8,747
Credit assets sold under repurchase agreements	27,033	18,973
Finance lease receivable under repurchase agreements	1,000	—
	569,453	332,556

Bank

	As at 31 December	
	2008	2007
Deposits from other banks	81,792	8,958
Deposits from other financial institutions	401,283	254,576
Loans from other banks	47,511	41,302
Securities sold under repurchase agreements	6,782	8,747
Credit assets sold under repurchase agreements	27,033	18,973
	564,401	332,556

25 FINANCIAL LIABILITIES HELD FOR TRADING

Group and Bank

	As at 31 December	
	2008	2007
Derivative financial instruments (Note 19)	5,675	3,319
Short position of securities held for trading	11	479
Debt securities in issue	4,327	6,230
	10,013	10,028

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

25 FINANCIAL LIABILITIES HELD FOR TRADING *(Continued)*

Debt securities in issue are:

	31 December 2008		31 December 2007	
	Amount	Interest rate per annum (%)	Amount	Interest rate per annum (%)
HKD short term Certificate of Deposit	31	4.28%	291	4.28%
HKD medium term Certificate of Deposit	91	4.75%	35	4.75%
USD short term Certificate of deposit	–	4.72%	20	4.72%
USD medium Certificate of deposit	91	4.87%	19	4.87%
HKD fixed rate Certificate of deposit (maturing in Jan 2009)	174	2.66%	–	–
HKD fixed rate Certificate of deposit (maturing in Sep 2010)	263	3.46%	–	–
HKD floating rate Certificate of deposit (maturing in Jul 2009)	1,059	3-mth HIBOR+0.08%	–	3-mth HIBOR+0.08%
HKD floating rate Certificate of deposit (maturing in Nov 2008)	–	–	846	HIBOR+0.18%
HKD floating rate Certificate of deposit (maturing in Sep 2008)	–	–	376	HIBOR+0.26%
HKD fixed rate step-up Certificate of deposit (maturing in May 2009)	–	–	398	range from 3.10% to 4.60%
HKD fixed rate step-up Certificate of deposit (maturing in Jul 2008)	–	–	247	range from 3.57% to 4.07%
HKD floating rate Certificate of deposit (maturing in Jul 2008)	–	–	1,133	3-mth HIBOR+0.05%
HKD floating rate Certificate of deposit (maturing in Jul 2008)	–	–	1,134	3-mth HIBOR+0.08%
HKD floating rate Certificate of deposit (maturing in Dec 2008)	–	–	188	3-mth HIBOR+0.16%
USD floating rate Certificate of deposit (maturing in Jul 2009)	342	3-mth HIBOR+0.55%	–	–
HKD floating rate Certificate of deposit (maturing in Aug 2009)	838	3-mth HIBOR+0.42%	–	–
USD floating rate Certificate of deposit (maturing in Aug 2009)	342	3-mth HIBOR+0.60%	–	–
HKD floating rate Certificate of deposit (maturing in Dec 2009)	352	3-mth HIBOR+0.23%	376	3-mth HIBOR+0.23%
USD floating rate Certificate of deposit (maturing in Aug 2010)	260	3-mth HIBOR+0.70%	–	–
HKD floating rate Certificate of deposit (maturing in Aug 2010)	176	3-mth HIBOR+0.50%	–	–
Others	308		1,167	–
Total	4,327		6,230	

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

26 DUE TO CUSTOMERS

Group

	As at 31 December	
	2008	2007
Corporate current deposits	646,894	699,289
Corporate savings deposits	8,207	7,785
Corporate time deposits	525,106	292,966
Individual current deposits	231,335	227,796
Individual savings deposits	16,093	14,295
Individual time deposits	428,136	299,355
Other deposits	10,044	14,113
	1,865,815	1,555,599
Including:		
Pledged deposits held as collateral	191,642	132,549

Bank

	As at 31 December	
	2008	2007
Corporate current deposits	646,887	699,289
Corporate savings deposits	8,207	7,785
Corporate time deposits	525,106	292,966
Individual current deposits	231,335	227,796
Individual savings deposits	16,093	14,295
Individual time deposits	428,136	299,355
Other deposits	10,044	14,113
	1,865,808	1,555,599
Including:		
Pledged deposits held as collateral	191,642	132,549

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

27 OTHER LIABILITIES

Group

	As at 31 December 2008	2007
Interest payable	22,259	12,750
Settlement accounts	8,413	10,075
Dividends payable	130	1,289
Staff benefits payables	4,328	3,481
Business and other tax payable	1,648	1,449
Outstanding Compensation	370	—
Provision for outstanding litigation	336	875
Others	5,715	5,645
	43,199	35,564

Bank

	As at 31 December 2008	2007
Interest payable	22,243	12,750
Settlement accounts	7,373	10,075
Dividends payable	130	1,289
Staff benefits payables	4,210	3,443
Business and other tax payable	1,634	1,346
Outstanding Compensation	370	—
Provision for outstanding litigation	336	875
Others	4,452	2,452
	40,748	32,230

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

28 DEFERRED INCOME TAXES

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 25% for the year ended 31 December 2008 (Year 2007: 25%) for transactions in Mainland China. Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 16.5% for the period ended 31 December 2008 (Year 2007: 17.5%) for transactions in Hong Kong.

The movement in the deferred income tax account is as follows:

Group

	Year ended 31 December	
	2008	2007
Balance at beginning of the year	2,020	3,197
Credit/(Debit) to profit and loss account	1,015	(1,069)
Available-for-sale securities — fair value remeasurement	(432)	(93)
Property revaluation	(159)	(15)
Exchange gain	42	—
At end of the year	2,486	2,020

Bank

	Year ended 31 December	
	2008	2007
Balance at beginning of the year	2,226	3,293
Credit/(Debit) to profit and loss account	1,071	(1,069)
Available-for-sale securities — fair value remeasurement	(548)	(8)
Property revaluation	(201)	10
Exchange gain	42	—
At end of the year	2,590	2,226

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

28 DEFERRED INCOME TAXES *(Continued)*

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

Group

	As at 31 December	
	2008	2007
Deferred income tax liabilities		
Available-for-sale securities	(1,024)	(511)
Property revaluation reserve	(1,816)	(1,759)
Other temporary differences	(134)	(324)
	(2,974)	(2,594)
Deferred income tax assets		
Provision for loan losses	3,742	2,468
Impairment allowances for investments	398	189
Decelerated tax depreciation	78	99
Impairment of other assets	1,122	1,819
Available-for-sale securities	120	39
	5,460	4,614
Net deferred income tax assets	2,486	2,020

Bank

	As at 31 December	
	2008	2007
Deferred income tax liabilities		
Available-for-sale securities	(1,031)	(404)
Property revaluation reserve	(1,745)	(1,650)
Other temporary differences	(134)	(324)
	(2,910)	(2,378)
Deferred income tax assets		
Provision for loan losses	3,742	2,468
Impairment allowances for investments	441	189
Decelerated tax depreciation	78	90
Impairment of other assets	1,121	1,818
Available-for-sale securities	118	39
	5,500	4,604
Net deferred income tax assets	2,590	2,226

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

28 DEFERRED INCOME TAXES *(Continued)*

The above net deferred income tax assets are disclosed separately on the balance sheet based on different responsible taxation authorities:

Group

	As at 31 December	
	2008	2007
Deferred tax assets	2,693	2,524
Deferred tax liabilities	(207)	(504)

Bank

	As at 31 December	
	2008	2007
Deferred tax assets	2,736	2,524
Deferred tax liabilities	(146)	(298)

The deferred tax (charge)/credit in the profit and loss account comprises the following temporary differences:

Group

	As at 31 December	
	2008	2007
Provision for loan losses:		
Additional provisions for loan losses	2,150	902
Utilization	(876)	(663)
Sub-total	1,274	239
Impairment allowances for investments	209	(51)
Impairment of other assets	(697)	(1,168)
Decelerated depreciation	(21)	(30)
Depreciation/disposal of property and equipment	60	(6)
Other temporary differences	190	(53)
	1,015	(1,069)

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

29 RETIREMENT BENEFIT OBLIGATIONS

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

The Group pays supplementary retirement benefits (SRPA) to employees in Mainland China, who retired as at 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits are discounted to determine their present values. The discount rate is the yield on government bonds at the balance sheet date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains and losses, changes in actuarial assumptions and amendments to pension plan are charged or credited to the profit and loss account as they occur. The amounts recognised in the balance sheet represent the present value of unfunded obligations plus any unrecognised actuarial gains and losses minus any unrecognised past service cost.

Management is undertaking a comprehensive design of a new employee Annuity Plan which is expected to be introduced in 2009. This plan will not be applicable to any employee receiving benefits under SPRA. As no new plan has been approved or established at 31 December 2008, no obligation or entitlement exists or has been provided for.

Retirement benefit obligations of the Group in locations other than Mainland China, which are immaterial to the Group, are made in accordance with the relevant local policies and regulations. They are accounted for in the profit and loss account in the period when the payment is made.

	As at 31 December	
	2008	2007
Expenses incurred for retirement benefit plans	785	640
Expenses incurred for supplementary retirement benefits	123	546

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

29 RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

	As at 31 December	
	2008	2007
Balance sheet obligations for:		
— Pension benefits	636	546

	Year ended 31 December	
	2008	2007
Profit and loss amount charge for:		
— Pension benefits	123	546

The amounts recognised in the balance sheet are determined as follows:

	As at 31 December	
	2008	2007
Present value of unfunded obligations	636	619
Unrecognised actuarial losses	—	—
Unrecognised past service cost	—	(73)
Liability in the balance sheet	636	546

Movement in the defined obligation over the year is as follows:

	Year ended 31 December	
	2008	2007
Beginning of year	546	—
Retirement Benefit Paid	(33)	—
Current service cost	2	—
Interest cost	28	—
Net actuarial losses	20	—
Past service cost	73	546
End of year	636	546

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

29 RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

The amounts recognised in the profit and loss account are as follows:

	As at 31 December	
	2008	2007
Current service cost	2	—
Interest cost	28	—
Net actuarial losses recognized during the period	20	—
Past service cost	73	546
Total, included in staff costs	123	546

The principal actuarial assumptions used are as follows:

	As at 31 December	
	2008	2007
Discount rate	3.56%	4.72%
Pension plan inflation rate	4.00%	4.00%

Mortality rate

Assumptions regarding future mortality experience are set based on published statistics by China Insurance Regulatory Commission.

The follow table translate into an average life expectancy in years of a pensioner retiring at age 60 for male and 55 for female:

	As at 31 December 2008	As at 31 December 2007
Male	22.20	22.20
Female	29.52	29.52

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

30 DEBTS ISSUED

Group and Bank

	As at 31 December 2008	As at 31 December 2007
Floating rate subordinated debt — 2009[(a)]	12,000	12,000
Fixed rate subordinated debt — 2022[(b)]	16,000	16,000
Fixed rate subordinated debt — 2017[(b)]	9,000	9,000
Fixed rate debt[(c)]	3,000	—
	40,000	37,000

(a) The RMB12 Billion floating rate subordinated term debt bears interest at the rate of 1 year fixed deposit rate set by the PBOC plus 2.52% and will mature in July 2009.

(b) The Group issued following subordinated debt on 6 March 2007 in the inter-bank market of Mainland China:

The first tranche of subordinated debt amounting to RMB16 Billion issued on 6 March 2007 has a fixed coupon rate of 4.13% for the first ten years, paid annually. The Group has the option to extend all of the bonds at face value for another five years through 8 March 2017 at a fixed rate of original coupon rate plus 3%.

The second tranche of subordinated debt amounting to RMB9 Billion issued on 6 March 2007 has a fixed coupon rate of 3.73% for the first 5 years, paid annually. The Group has the option to extend all of the bonds at face value for another five years through 8 March 2012 at a fixed rate of original coupon rate plus 3%.

(c) According to the resolution of the Annual General Meeting on 6 June 2008 and the approval from the People's Bank of China, the Group issued RMB3 billion term debt, which has a maturity of two years and bears interest at the annual rate of 3.25%, in Hong Kong on 29 July 2008.

31 SHARE CAPITAL AND CAPITAL SURPLUS

Group

	Number of shares (in millions)	Ordinary shares of RMB1 each (RMB million)	Capital surplus (RMB million)	Total (RMB million)
At 1 January 2008 and 31 December 2008	48,994	48,994	43,100	92,094

Bank

	Number of shares (in millions)	Ordinary shares of RMB1 each (RMB million)	Capital surplus (RMB million)	Total (RMB million)
At 1 January 2008 and 31 December 2008	48,994	48,994	43,992	92,986

The shareholding structures of the Group and the Bank as at 31 December 2008 are as follow:

Group and Bank

	Number of shares (in millions)	Approximated percentage of the Bank's issued share capital
Domestic Shares in issue	25,930	52.92%
H shares offered under the Global Offering and converted from Domestic Shares	23,064	47.08%
Total number of shares	48,994	100%

Generally, transactions of the following nature are recorded in the capital surplus:

(a) share premium arising from the issue of shares at prices in excess of their par value;
(b) donations received from shareholders; and
(c) any other items required by the PRC regulations to be so treated.

Capital surplus can be utilized to offset prior years' accumulated losses, for the issue of bonus shares or for increasing paid-up capital as approved by the Shareholders.

As at 31 December 2008 the Group's capital surplus is the share premium arising from the issue of shares at prices in excess of their par value.

32 RESERVES AND RETAINED EARNINGS

Pursuant to the PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the Directors and are subject to the passing of resolutions to be considered at the Bank's Annual General Meeting to be held subsequent to each year end.

In accordance with the PRC legislation, 10% of the net distributable profit of the Bank (Note 33), as determined under the PRC accounting regulations, is required to be transferred to a non-distributable statutory reserve until such time when this reserve represents 50% of the share capital of the Bank. Such profit distribution is recognized in the balance sheet upon approval by the shareholders at the Annual General Meeting.

Pursuant to the PRC banking regulations, the Bank is required to transfer a certain amount of its net income. It is determined based on the degree of overall unidentified loss exposure, normally no lower than 1% of the ending balance of risk assets, to the statutory general reserve through its profit appropriation. The statutory general reserve is an integral part of equity interest but not subject to dividend distribution. Such statutory general reserve is recognized in the balance sheet upon approval by the shareholders at the Annual General Meeting. Statutory reserve of Hong Kong branch required by Hong Kong Monetary Authority ('HKMA') is also included in above statutory general reserve.

In accordance with the PRC legislation, after the statutory reserve has been transferred from the net distributable profit of the bank, discretionary reserve may be provided upon approval by the shareholders at the Annual General Meeting. Such discretionary reserve is recognized in the balance sheet upon approval by the shareholders at the Annual General Meeting.

Based on the 2007 financial results, on 19 March 2008, the Directors proposed the following profit appropriation, which was approved by the shareholders at the Annual General Meeting on 6 June 2008.

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

32 RESERVES AND RETAINED EARNINGS *(Continued)*

	Amount arising from the prior year, approved and processed in 2008 and 2007	
	2007	2006
Statutory reserve	1,993	1,271
Statutory general reserve	1,938	6,208
Discretionary reserve	8,511	576
	12,442	8,055

On 18 March 2009, the Directors proposed the following profit appropriation, which is still subject to the approval by the shareholders at the Annual General Meeting.

	2008
Statutory reserve	2,830
Statutory general reserve	5,882
Discretionary reserve	6,900
	15,612

33 DIVIDENDS

	Year ended 31 December	
	2008	2007
Paid in the year	13,407	5,311

33 DIVIDENDS *(Continued)*

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

(a) Making up prior year's cumulative losses, if any;

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

(c) Allocations to statutory general reserve;

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

In accordance with the relevant regulations, the distributable profit is deemed to be the lesser of (i) the distributable profit determined in accordance with PRC GAAP and (ii) the distributable profit determined in accordance with IFRS.

The dividends are recognized in the balance sheet upon approval by the shareholders at the Annual General Meeting. In accordance with the resolution of the Annual General Meeting on 6 June 2008, the Board of Directors was authorized to approve the profit appropriation plan within 40% of the distributable profit in the first half year of 2008. At 26 August 2008, the directors approved a cash dividend of RMB 0.10 per share, amounting to RMB4,899 million.

At 31 December 2008, the aggregate amount of distributable profit was RMB23,334 million, being the distributable profit determined in accordance with IFRS (2007: IFRS) after the distribution of interim dividends. On 18 March 2009, the directors proposed a cash dividend of RMB0.10 (2007: RMB0.15) per share, amounting to RMB4,899 million (2007: RMB7,349 million), which is subject to the approval by shareholders at the Annual General Meeting.

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

34 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Financial guarantees and credit related commitments

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

Group and Bank

	As at 31 December	
	2008	2007
Guarantees	154,918	157,771
Letters of credit	25,637	34,779
Acceptances	193,826	172,127
Other commitments with an original maturity of		
— Under 1 year	95,564	59,369
— 1 year and over	6,937	11,907
	476,882	435,953

Capital expenditure commitments

Group

	As at 31 December	
	2008	2007
Capital expenditure commitments for buildings	357	203

Bank

	As at 31 December	
	2008	2007
Capital expenditure commitments for buildings	355	203

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

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

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancelable operating leases in respect of buildings are as follows:

Group

	As at 31 December	
	2008	2007
Not later than 1 year	1,014	769
Later than 1 year and not later than 5 years	2,454	1,756
Later than 5 years	972	636
	4,440	3,161

Bank

	As at 31 December	
	2008	2007
Not later than 1 year	998	769
Later than 1 year and not later than 5 years	2,435	1,756
Later than 5 years	972	636
	4,405	3,161

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

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

Commitments on security underwriting and bond acceptance

Group and Bank

	As at 31 December	
	2008	2007
Outstanding balance on security underwriting	6,700	6,750
Outstanding balance on bond acceptance[(a)]	20,345	17,842

(a) The Bank is entrusted by the Ministry of Finance ("MOF") to underwrite certain Certificates of Treasury Bond. The investors of Certificates of Treasury Bond have a right to redeem the bonds at par any time prior to maturity and the Bank is committed to redeem those bonds. The redemption price is the principal value of the Certificates of Treasury Bond plus unpaid interest.
The original maturities of these bonds vary from 1 to 5 years.
The MOF will not provide funding for the early redemption of these Certificates of Treasury Bond on a back-to-back basis but will pay interest through maturity and repay the principal at maturity.

Legal proceedings

A number of legal proceedings are initiated by third parties against the Group as defendant. The total outstanding claims at end of the year are as follows:

Group and Bank

	As at 31 December	
	2008	2007
Outstanding claims	1,298	1,785
Provision for losses	336	875

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

35 ASSETS PLEDGED

Assets are pledged as collateral under repurchase agreements with other banks and financial institutions and for security deposits relating to local futures, options and stock exchange memberships.

Group and Bank

	Pledged Assets As at 31 December		Related Liabilities As at 31 December	
	2008	2007	2008	2007
Trading securities	19	486	10	479
Investment securities	7,893	9,908	6,782	8,747
Loans	27,033	18,973	27,033	18,973
Finance lease receivable	1,091	—	1,000	—
	36,036	29,367	34,825	28,199

36 CREDIT RISK WEIGHTED AMOUNT OF FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS

Group and Bank

	As at 31 December	
	2008	2007
Financial guarantees and credit related commitments	156,476	151,990

The credit risk weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments.

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

37 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Analysis of changes in financing during the year

	Dividends	Share capital	Capital surplus	Term debt (including interest payable)
At 1 January 2008	1,289	48,994	43,100	38,207
Net cash outflow	(13,407)	—	—	(1,666)
Issue term debt	—	—	—	3,000
Interest expense recognised on term debts	—	—	—	1,724
Dividends	12,248	—	—	—
At 31 December 2008	130	48,994	43,100	41,265
At 1 January 2007	2,020	45,804	21,540	12,292
Net cash outflow	(5,311)	—	—	(577)
Issue of shares	—	3,190	21,560	—
Issue subordinated term debt	—	—	—	25,000
Interest expense recognised on subordinated term debts	—	—	—	1,492
Dividends	4,580	—	—	—
At 31 December 2007	1,289	48,994	43,100	38,207

(b) Analysis of the balance of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with original maturities of less than 90 days used for the purpose of meeting short-term cash commitments:

	As at 31 December 2008	2007
Cash and balances with central banks (Note 16)	109,993	61,281
Due from other banks and financial institutions (Note 17(a))	115,739	34,783
	225,732	96,064

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

38 PRINCIPAL SUBSIDIARIES

(a) Particulars of the principal subsidiaries are as follows:

Name of subsidiaries	Place of incorporation and operation	Date of incorporation	Issued and fully paid up share capital	Bank equity interest %	Principal activities
Kiu Fai Company Limited	Hong Kong	18 Mar 1967	HKD3,000,000	100	Property holding and investment holding
BCOM Finance (Hong Kong) Limited	Hong Kong	13 Mar 1979	HKD90,000,000	100	Deposit taking
Amiwell Company Limited	Hong Kong	18 Mar 1980	HKD2	100	Property holding and investment
Bank of Communications (Nominee) Company Limited	Hong Kong	21 Aug 1981	HKD200,000	100	Investment holding
Bank of Communications Trustee Limited	Hong Kong	13 Oct 1981	HKD50,000,000	100	Trustee Service
Chiao Tung Developments Limited	Hong Kong	5 Feb 1985	HKD50,000,000	100	Investment holding
Expectation Investment Limited	Hong Kong	29 Jan 1997	HKD2	100	Investment holding
BOCOM International Holdings Company Limited (former known as BOCOM Securities Company Limited)	Hong Kong	3 Jun 1998	HKD1,000,000,000	100	Securities dealing
Unique Profit Limited	Hong Kong	12 Jun 1998	HKD10,000	100	Property holding
Creative Mart Limited	Hong Kong	12 May 1999	HKD100	100	Property development
Star Wealthy Secretarial Company Limited	Hong Kong	23 Aug 1999	HKD2,000,000	100	Investment holding
City Wisdom Limited	Hong Kong	19 Jul 2000	HKD10,000	100	Property holding
Eastern Sky Limited	Hong Kong	21 Aug 2000	HKD10,000	100	Property development
China BOCOM Insurance Company Limited (former known as China Communications Insurance Company Limited)	Hong Kong	1 Nov 2000	HKD400,000,000	100	General insurance and reinsurance
Bank of Communications Charitable Foundation Limited	Hong Kong	19 Jun 2002	—	100	Charity fund
BOCOM International Asset Management Limited[1]	Hong Kong	18 May 2007	HKD5,000,000	100	Asset Management
BOCOM International Securities Limited[1]	Hong Kong	18 May 2007	HKD510,000,000	100	Securities dealing
BOCOM International (Asia) Limited[1]	Hong Kong	18 May 2007	HKD10,000,000	100	Securities dealing
Career Computer (Shenzhen) Company Limited[2]	PRC	22 Dec 1997	USD3,000,000	100	Development of computer software and hardware, electronic equipments and communication network
Bank of Communications Schroder Fund Management Co., Ltd.[2]	PRC	4 Aug 2005	RMB200,000,000	65	Fund Management
Bank of Communications International Trust Co., LTD.[2]	PRC	18 Oct 2007	RMB1,200,000,000	85	Trust investment
Bank of Communications Financial Leasing Co., Ltd.[2]	PRC	20 Dec 2007	RMB2,000,000,000	100	Financial leasing
Dayi Bocom Xingmin Rural Bank Co., Ltd[2]	PRC	15 Aug 2008	RMB60,000,000	61	Commercial banking

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

38 PRINCIPAL SUBSIDIARIES *(Continued)*

(a) Particulars of the principal subsidiaries are as follows: *(Continued)*

Note 1: These companies are the sub-subsidiaries of the Bank. The BOCOM International Asset Management Limited, BOCOM International Securities Limited and BOCOM International (Asia) Limited are all subsidiaries of BOCOM International Holdings Company Limited.

Note 2: These subsidiaries incorporated in PRC are all limited liability companies.

(1) Changes of subsidiaries

The Bank set up Dayi Bocom Xingmin Rural Bank Co., Ltd. on August 15, 2008. The registered capital is 60 million RMB and the Bank accounts for 61% shares.

(2) Auditors of subsidiaries

For the year ended 31 December 2008, PricewaterhouseCoopers Hong Kong CPAs 羅兵咸永道會計師事務所 are the auditors of all principal subsidiaries incorporated in Hong Kong.

For the years ended 31 December 2007 and 2008, Career Computer (Shenzhen) Company Limited was audited by Shenzhen Peng Cheng CPAs Limited 深圳鵬城會計師事務所.

The Bank of Communications Schroder Fund Management Co., Ltd. and Bank of Communications Financial Leasing Co., Ltd. are audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Co. 普華永道中天會計師事務所有限公司.

Bank of Communications International Trust Co., LTD. is audited by Deloitte Touche Tohmatsu CPA Ltd. 德勤華永會計師事務所有限公司.

Dayi Bocom Xingmin Rural Bank Co., Ltd is audited by Sichuan Zhong Fu CPAs Limited 四川省中服會計師事務所有限公司.

(b) Investment costs and balances with subsidiaries:

	Year ended 31 December 2008	2007
Investment cost — subsidiaries	4,782	4,645
Amount due from subsidiaries	1,150	2,026
Amount due to subsidiaries	(2,346)	(1,487)
Total	3,586	5,184

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

39 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group is subject to the control of the State Council of the PRC Government.

(a) Transactions with the MOF

The Group enters into banking transactions with the MOF in the normal course of business. These include the purchase and redemption of investment securities issued by the MOF. The volumes of related party transactions, outstanding balances at the period end, and related income for the year are as follows:

Treasury bonds

	Year ended 31 December	
	2008	2007
Purchase during the year	38,022	73,896
Redemption during the year	(44,341)	(28,689)
Interest income	5,892	3,960

	Year ended 31 December	
	2008	2007
Outstanding balance at beginning of the year	161,303	102,767
Outstanding at end of the year	173,825	161,303

39 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with other government agencies and other state controlled entities

The Group is ultimately controlled by the PRC government, which also directly and indirectly controls a significant number of entities through its government authorities, agencies and affiliates. Accordingly, the Group is likely to have extensive transactions with government authorities, agencies and affiliates and other State-controlled entities.

Transactions with government authorities and agencies conducted include purchase and redemption of investment securities issued by government agencies, maintenance of mandatory reserves and other deposits and amounts due to government agencies.

The state controlled entities are those over which the PRC government directly holds over 50% of the outstanding shares or voting rights, and has the ability to control or the power to govern their financial or operational policies.

Transactions with other state controlled entities are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits, investment securities, money market transactions and financial guarantees and credit related commitments. Such pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. Except these disclosed elsewhere in these financial statements, the volumes of such related party transactions, outstanding balances and related provisions at the year end, and the related expense and interest ranges for the year are as follows:

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

39 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with other government agencies and other state controlled entities *(Continued)*

(i) Loans and advances to customers

	Year ended 31 December	
	2008	2007
Outstanding balance at beginning of the year	289,764	240,214
Outstanding balance at end of the year	340,018	289,764
Less: allowance for impairment losses	(4,834)	(3,339)
	335,184	286,425
Including: discounted bills	1,631	2,358
Interest rate range for discounted bills	2.40%~7.96%	2.40%~7.96%
Interest rate range of loans and advances other than discounted bills	0.05%~18%	0.05%~18%

The loan interest rate range stated above covers interest rates for loans granted in various currencies and periods.

	Year ended 31 December	
	2008	2007
Maximum balance during the year	429,588	289,764
Provision for impairment during the year	1,495	127

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

39 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with other state controlled entities *(Continued)*

(ii) Investment securities

	Year ended 31 December	
	2008	2007
Purchase during the year	1,011,963	395,384
Redemption during the year	(188,365)	(60,053)
Sales during the year	(919,146)	(268,742)
Interest income	9,735	8,066

	Year ended 31 December	
	2008	2007
Outstanding balance at beginning of the year	218,395	166,510
Outstanding balance at end of the year	326,592	218,395

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

39 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with other state controlled entities *(Continued)*

(iii) Due from other banks and financial institutions

	Year ended 31 December	
	2008	2007
Outstanding balance at beginning of the year	51,388	30,886
Outstanding balance at end of the year	57,649	51,388
Less: allowance for impairment losses	(6)	(7)
	57,643	51,381

	Year ended 31 December	
	2008	2007
Maximum balance during the year	57,649	141,958
Provision for impairment reversed during the year	(1)	(102)

(iv) Due to other banks and financial institutions

	Year ended 31 December	
	2008	2007
Outstanding balance at beginning of the year	91,134	89,864
Outstanding balance at end of the year	116,675	91,134

	Year ended 31 December	
	2008	2007
Maximum balance during the year	604,608	194,175

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

39 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with other state controlled entities *(Continued)*

(v) Due to customers

	Year ended 31 December	
	2008	2007
Outstanding balance at beginning of the year	361,337	273,099
Outstanding balance at end of the year	454,936	361,337

	Year ended 31 December	
	2008	2007
Maximum balance during the year	970,409	361,782

(vi) Financial guarantees and credit related commitments

	As at 31 December	
	2008	2007
Guarantees	67,647	52,863
Letters of credit	11,298	50,195
Acceptances	22,983	17,886
Derivative transactions unsettled	14,410	15,966

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

39 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Transactions with directors and senior management

The Group enters into banking transactions with directors and senior management in the normal course of business. These include loans and deposits, which are carried out under commercial terms and at market rates except that loans and deposits have been made to and taken from senior management of the Hong Kong branch at preferential rates. The volumes of related party transactions during each of the years ended 31 December 2008 and 2007, outstanding balances at the balance sheet date are as follows:

(i) Loans

	Year ended at 31 December 2008	2007
Outstanding at beginning of the year	36	17
Granted during the year	206	52
Repaid during the year	(41)	(33)
Outstanding at end of the year	201	36

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

(ii) Deposits

	Year ended at 31 December 2008	2007
Outstanding at beginning of the year	45	33
Deposited during the year	168	143
Repaid during the year	(158)	(131)
Outstanding at end of the year	55	45

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

39 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Transactions with HSBC

As at 31 December 2008, The Hong Kong and Shanghai Banking Corporation Limited ("HSBC") holds 9,381 million shares of the bank which represents 19.15%. Transactions between the Group and HSBC are mainly banking activities under commercial terms and at market rates. Detail transaction volumes since the above share acquisition are set out below:

(i) Due from HSBC

	Year ended 31 December	
	2008	2007
Outstanding at beginning of the year	1,415	1,434
Granted during the year	301,086	659,853
Repaid during the year	(301,702)	(659,872)
Outstanding at end of the year	799	1,415
Interest income	94	186

(ii) Due to HSBC

	Year ended 31 December	
	2008	2007
Outstanding at beginning of the year	1,769	489
Deposited during the year	92,652	394,478
Repaid during the year	(94,032)	(393,198)
Outstanding at end of the year	389	1,769
Interest expense	88	136

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

39 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Transactions with HSBC *(Continued)*

(iii) Investment securities

	Year ended 31 December	
	2008	2007
Interest income	16	50

	As at 31 December	
	2008	2007
Outstanding balance	350	788

(iv) Derivative transactions unsettled

	As at 31 December	
	2008	2007
Derivative transactions unsettled	20,531	13,577
Fair Value	(3)	28

40 SEGMENTAL INFORMATION

(a) The following table sets out the segmental information of the Group's operating results, assets and liabilities. The geographical segments are:

(i) Northern China — Including the following provinces: Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia;

(ii) North Eastern China — Including the following provinces: Liaoning, Jilin, Heilongjiang;

(iii) Eastern China — Including the following provinces: Shanghai (excluding head office), Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;

(iv) Central & Southern China — Including the following provinces: Henan, Hunan, Hubei, Guangdong, Guangxi, Hainan;

(v) Western China — Including the following provinces: Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shannxi, Gansu, Qinghai, Ningxia and Xinjiang;

(vi) Head office;

(vii) Overseas — Including overseas subsidiaries and the following branches: Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt and Macau.

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

40 SEGMENTAL INFORMATION *(Continued)*

(a) Geographical segment information

	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Head Office	Overseas	Eliminations	Group Total
As at 31 December 2008									
Assets									
Cash and balances with central banks	9,682	4,087	30,922	10,306	4,580	302,138	465	–	362,180
Due from other banks and financial institutions	75,584	859	86,742	13,548	1,803	115,439	37,536	–	331,511
Financial assets held for trading	–	–	–	7	–	22,350	4,579	–	26,936
Loans and advances to customers	252,653	70,911	518,712	247,301	108,410	28,006	72,783	–	1,298,776
Investment securities									
– loans and receivables	7,032	3,285	13,015	10,755	2,851	53,965	–	–	90,903
– available-for-sale	7,696	144	2,789	2,500	15	110,828	18,038	–	142,010
– held-to-maturity	7,686	11,125	21,584	15,734	4,516	305,896	1,337	–	367,878
Other assets	207,915	77,809	312,666	161,849	76,590	46,409	16,326	(836,811)	62,753
Segment assets	568,248	168,220	986,430	462,000	198,765	985,031	151,064	(836,811)	2,682,947
Liabilities									
Due to other banks and financial institutions	(198,738)	(12,430)	(232,468)	(59,740)	(18,921)	(16,339)	(30,817)	–	(569,453)
Financial liabilities held for trading	–	–	–	–	–	(4,562)	(5,451)	–	(10,013)
Due to customers	(353,576)	(152,496)	(712,409)	(384,419)	(174,069)	(1,916)	(86,930)	–	(1,865,815)
Debts issued	–	–	–	–	–	(40,000)	–	–	(40,000)
Other liabilities	(10,798)	(5,296)	(25,340)	(11,404)	(5,059)	(801,828)	(24,657)	836,811	(47,571)
Segment liabilities	(563,112)	(170,222)	(970,217)	(455,563)	(198,049)	(864,645)	(147,855)	836,811	(2,532,852)
Net on balance sheet position	5,136	(2,002)	16,213	6,437	716	120,386	3,209	–	150,095
Off-balance exposures									
Financial guarantees, acceptance and letter of credit	102,361	9,791	178,439	50,823	20,086	3,172	9,709	–	374,381
Other credit related commitments	13,278	7,115	35,557	18,769	9,090	–	18,692	–	102,501
Acquisition cost of property and equipment ("PPE") and intangible assets	(1,012)	(373)	(2,331)	(1,176)	(413)	(1,836)	(101)	–	(7,242)
For the year ended 31 December 2008									
Interest income	22,632	7,117	44,869	22,455	9,028	28,676	5,231	(22,902)	117,106
Interest expense	(13,193)	(3,688)	(19,641)	(9,633)	(3,744)	(20,882)	(3,365)	22,902	(51,244)
Net interest income	9,439	3,429	25,228	12,822	5,284	7,794	1,866	–	65,862
Fee and commission income	1,423	337	3,014	1,363	392	2,831	761	–	10,121
Fee and commission expense	(227)	(49)	(499)	(182)	(51)	(96)	(180)	–	(1,284)
Net fee and commission income	1,196	288	2,515	1,181	341	2,735	581	–	8,837
Dividend income	–	–	55	–	1	15	12	–	83
Gains less losses arising from trading activities	465	112	757	302	77	(36)	(120)	–	1,557
Gains less losses arising from de-recognition of investment securities	28	11	250	(52)	3	272	(286)	–	226
Other operating income	14	30	448	62	46	9	102	–	711
Impairment losses on loans and advances	(1,976)	(603)	(4,731)	(1,993)	(1,121)	(23)	(243)	–	(10,690)
Other operating expenses	(4,063)	(2,036)	(10,015)	(4,837)	(2,289)	(5,655)	(1,972)	–	(30,867)
Operating profit/(loss) before tax	5,103	1,231	14,507	7,485	2,342	5,111	(60)	–	35,719
Income tax	(1,206)	(269)	(3,497)	(1,755)	(548)	(64)	110	–	(7,229)
Net profit for the year	3,897	962	11,010	5,730	1,794	5,047	50	–	28,490
Depreciation and amortization of property and equipment and intangible assets	(340)	(277)	(980)	(482)	(269)	(751)	(141)	–	(3,240)

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

40 SEGMENTAL INFORMATION *(Continued)*

(a) Geographical segment information *(Continued)*

	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Head Office	Overseas	Eliminations	Group Total
As at 31 December 2007									
Assets									
Cash and balances with central banks	11,614	3,478	21,071	8,746	4,278	211,497	749	–	261,433
Due from other banks and financial institutions	19,245	1,044	41,186	5,470	2,383	65,685	25,365	(4,268)	156,110
Financial assets held for trading	128	7	48	23	15	16,126	2,993	–	19,340
Loans and advances to customers	206,479	61,380	432,436	218,590	91,232	9,091	61,188	2,392	1,082,788
Investment securities									
– loans and receivables	6,375	3,581	13,422	10,646	2,868	29,801	–	–	66,693
– available-for-sale	17,587	181	48	3,206	24	101,969	23,439	–	146,454
– held-to-maturity	10,853	13,516	29,700	22,776	8,244	239,584	2,280	–	326,953
Other assets	33,367	8,690	40,587	27,046	9,062	15,499	14,465	(98,043)	50,673
Segment assets	305,648	91,877	578,498	296,503	118,106	689,252	130,479	(99,919)	2,110,444
Liabilities									
Due to other banks and financial institutions	(96,262)	(5,408)	(144,743)	(49,396)	(9,259)	(5,155)	(22,333)	–	(332,556)
Financial liabilities held for trading	(11)	(2)	(10)	(8)	(6)	(3,002)	(6,989)	–	(10,028)
Due to customers	(270,655)	(132,207)	(605,658)	(324,907)	(150,311)	(636)	(71,185)	(40)	(1,555,599)
Other liabilities	(6,578)	(2,636)	(97,976)	(6,770)	(3,032)	(35,937)	(25,970)	99,959	(78,940)
Segment liabilities	(373,506)	(140,253)	(848,387)	(381,081)	(162,608)	(44,730)	(126,477)	99,919	(1,977,123)
Net on balance sheet position	(67,858)	(48,376)	(269,889)	(84,578)	(44,502)	644,522	4,002	–	133,321
Off-balance exposures									
Financial guarantees, acceptance and letter of credit	97,774	10,222	163,335	59,544	19,382	3,199	11,221	–	364,677
Other credit related commitments	6,549	3,726	19,162	10,715	4,930	–	26,194	–	71,276
Acquisition cost of property and equipment ("PPE") and intangible assets	(2,449)	(470)	(1,953)	(891)	(285)	(1,176)	(192)	–	(7,416)
For the year ended 31 December 2007									
Interest income	15,595	5,608	33,576	17,223	7,012	17,464	7,329	(13,488)	90,319
Interest expense	(7,159)	(2,478)	(13,135)	(6,482)	(2,530)	(12,639)	(5,404)	13,451	(36,376)
Net interest income	8,436	3,130	20,441	10,741	4,482	4,825	1,925	(37)	53,943
Fee and commission income	623	275	2,063	788	307	3,144	1,045	–	8,245
Fee and commission expense	(166)	(51)	(410)	(127)	(56)	(67)	(273)	–	(1,150)
Net fee and commission income	457	224	1,653	661	251	3,077	772	–	7,095
Dividend income	–	6	61	–	–	5	5	–	77
Gains less losses arising from trading activities	385	98	645	253	65	(1,208)	12	–	250
Gains less losses arising from de-recognition of investment securities	85	–	232	54	1	(2)	287	–	657
Other operating income	29	15	236	384	27	80	(27)	23	767
Reversal/(Impairment losses) on loans and advances	(1,320)	91	(3,336)	(1,413)	(284)	(75)	(43)	–	(6,380)
Other operating expenses	(3,249)	(2,379)	(8,131)	(4,395)	(2,284)	(3,245)	(1,612)	–	(25,295)
Operating profit/(loss) before tax	4,823	1,185	11,801	6,285	2,258	3,457	1,319	(14)	31,114
Income tax	(1,873)	(356)	(4,657)	(1,972)	(882)	(613)	(359)	–	(10,712)
Net profit/(loss) for the year	2,950	829	7,144	4,313	1,376	2,844	960	(14)	20,402
Depreciation and amortization of property and equipment and intangible assets	(297)	(280)	(865)	(430)	(254)	(640)	(132)	–	(2,898)

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

40 SEGMENTAL INFORMATION *(Continued)*

(b) Business segment information

The Group is engaged predominantly in banking and related financial activities. It comprises retail banking, corporate banking, treasury and other classes of business. The pricing of these transactions is based on market deposit and lending rates, adjusted for pre-determined margins. These margins reflect differentiation based on product features and maturities.

Corporate banking mainly comprises corporate loans, bills, trade finance, corporate deposits and remittance. Retail banking mainly comprises retail loans, retail deposits, credit card and remittance. Treasury mainly comprises money market placements and takings, investment in securities, and securities sold subject to linked repurchase agreements ('repos'). The 'Others' business mainly comprises other items which cannot be categorized as above business segments.

	Corporate	Retail	Treasury	Others	Total
As at 31 December 2008					
Total carrying amount of segment assets	1,082,928	221,593	1,363,138	15,288	2,682,947
Segment revenue	75,833	18,915	33,932	1,124	129,804
Depreciation and amortization of PPE and intangible assets	1,158	1,374	19	689	3,240
Acquisition cost of PPE and intangible assets	2,696	3,107	28	1,329	7,160
As at 31 December 2007					
Total carrying amount of segment assets	903,502	185,870	1,002,534	18,538	2,110,444
Segment revenue	60,479	13,772	25,606	458	100,315
Depreciation and amortization of PPE and intangible assets	832	1,046	179	841	2,898
Acquisition cost of PPE and intangible assets	2,266	2,782	475	1,961	7,484

41 RECLASSIFICATION OF COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period presentation.

Supplementary Unaudited Financial Information

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

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

1 LIQUIDITY RATIOS

Group

	As at 31 December	
	2008	2007
Liquidity ratios:	39.72%	27.20%

Bank

	As at 31 December	
	2008	2007
Liquidity ratios:	39.62%	27.07%

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

2 CURRENCY CONCENTRATIONS

Group

	US Dollars	HK Dollars	Others	Total
As at 31 December 2008				
Spot assets	150,198	59,612	28,099	237,909
Spot liabilities	(126,943)	(68,716)	(24,728)	(220,387)
Forward purchases	81,451	9,036	9,347	99,834
Forward sales	(78,776)	(2,256)	(13,153)	(94,185)
Net long/(short) position	25,930	(2,324)	(435)	23,171
Net structural position	2,140	4,587	856	7,583

Group

	US Dollars	HK Dollars	Others	Total
As at 31 December 2007				
Spot assets	116,750	63,093	25,493	205,336
Spot liabilities	(90,078)	(66,702)	(24,785)	(181,565)
Forward purchases	78,968	16,094	4,188	99,250
Forward sales	(70,890)	(11,157)	(9,394)	(91,441)
Net long/(short) position	34,750	1,328	(4,498)	31,580
Net structural position	2,214	3,993	1,491	7,698

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

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

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

3 CROSS-BORDER CLAIMS

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

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

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

	Bank and other financial institutions	Public sector entities	Others	Total
As at 31 December 2008				
Asia Pacific excluding Mainland China	32,199	2,276	42,926	77,401
— of which attributed to Hong Kong	1,926	1,995	36,106	40,027
North and South America	13,915	333	7,762	22,010
Africa	149	—	—	149
Europe	44,308	197	2,954	47,459
	90,571	2,806	53,642	147,019

	Bank and other financial institutions	Public sector entities	Others	Total
As at 31 December 2007				
Asia Pacific excluding Mainland China	19,915	2,789	38,129	60,833
— of which attributed to Hong Kong	3,001	2,643	31,167	36,811
North and South America	11,468	921	9,054	21,443
Europe	38,761	296	190	39,247
	70,144	4,006	47,373	121,523

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

4 OVERDUE AND RESCHEDULED ASSETS

(a) Gross amount of overdue loans

Group and Bank

	As at 31 December 2008	2007
Gross advances to customers which have been overdue for:		
— within 3 months	8,381	7,583
— between 3 and 6 months	2,395	1,955
— between 6 and 12 months	3,588	3,405
— over 12 months	14,996	14,348
	29,360	27,291
Percentage:		
— within 3 months	0.63%	0.68%
— between 3 and 6 months	0.18%	0.18%
— between 6 and 12 months	0.27%	0.31%
— over 12 months	1.13%	1.29%
	2.21%	2.46%

Group and Bank

	As at 31 December 2008	2007
Gross advances to banks and other financial institutions which have been overdue for:		
— within 3 months	—	—
— between 3 and 6 months	—	—
— between 6 and 12 months	—	—
— over 12 months	226	314
	226	314
Percentage:		
— within 3 months	—	—
— between 3 and 6 months	—	—
— between 6 and 12 months	—	—
— over 12 months	0.07%	0.21%
	0.07%	0.21%

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

4 OVERDUE AND RESCHEDULED ASSETS *(Continued)*

(a) Gross amount of overdue loans *(Continued)*

* Included in the gross overdue advances to customers as at 31 December 2008, there are trade bills which have been overdue for:

	31 December 2008
— within 3 months	69
— between 3 and 6 months	24
— between 6 and 12 months	6
— over 12 months	62
	161

(b) Overdue and rescheduled loans

Group and Bank

	31 December 2008	31 December 2007
Total rescheduled loans and advances to customers	5,315	6,047
Including: rescheduled loans and advances to customers overdue above 3 months	2,811	2,727
Percentage of rescheduled loans and advances to customers overdue above 3 months in total loans	0.21%	0.25%

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

5 SEGMENTAL INFORMATION OF LOANS

(a) Impaired loans by geographical area

Group and Bank

	31 December 2008		31 December 2007	
	Impaired loan	Specific Provision	Impaired loan	Specific Provision
Domestic regions				
— Northern China	3,822	(2,564)	3,787	(2,136)
— North-eastern China	3,173	(2,130)	3,480	(2,296)
— Eastern China	10,133	(6,203)	8,158	(5,072)
— Central & Southern China	4,451	(2,967)	4,010	(2,479)
— Western China	3,537	(2,179)	2,956	(1,807)
	25,116	(16,043)	22,391	(13,790)
Hong Kong and overseas countries	404	(340)	303	(222)
	25,520	(16,383)	22,694	(14,012)

(b) Overdue loans and advances to customers by geographical area

Group and Bank

	31 December 2008			31 December 2007		
	Overdue loan	Specific Provision	Collective provision	Overdue loan	Specific Provision	Collective provision
Domestic regions						
— Northern China	4,808	(2,087)	(25)	4,541	(1,736)	(29)
— North-eastern China	4,173	(1,882)	(21)	4,061	(1,954)	(16)
— Eastern China	10,112	(5,087)	(41)	8,442	(3,915)	(34)
— Central & Southern China	6,038	(2,454)	(39)	5,874	(2,345)	(28)
— Western China	3,515	(1,639)	(15)	3,361	(1,538)	(9)
	28,646	(13,149)	(141)	26,279	(11,488)	(116)
Hong Kong and overseas countries	714	(281)	(1)	1,012	(296)	(2)
	29,360	(13,430)	(142)	27,291	(11,784)	(118)
Fair value of collateral	17,810			17,709		

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

6 LOANS AND ADVANCES TO CUSTOMERS

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

Group and Bank

	31 December 2008			31 December 2007		
		%	Amount covered by collaterals		%	Amount covered by collaterals
HK:						
Corporate loans						
Manufacturing						
— Petroleum and chemical	—	—	—	—	—	—
— Electronics	357	—	148	594	2	183
— Steel smelting and processing	—	—	—	—	—	—
— Machinery	—	—	—	—	—	—
— Textile	247	—	85	251	—	110
— Other manufacturing	3,504	6	312	3,275	6	465
Transportation	2,139	4	520	1,080	2	859
Trading	7,997	14	1,098	5,713	11	1,997
Services	309	1	2	165	—	11
Real estate	6,799	12	5,114	5,898	11	5,898
Utilities	416	1	—	490	1	—
Construction	4,982	9	1,259	3,887	7	1,805
Educations and scientific research	—	—	—	—	—	—
IT and telecommunication service	479	1	—	328	1	—
Agriculture	—	—	—	—	—	—
Non-banking financial institutions	5,812	10	284	7,135	14	1,009
Others	10,095	18	682	8,917	17	716
Corporate loans total	43,136	76	9,504	37,733	72	13,053
Mortgage loans	8,831	15	8,816	9,223	18	9,223
Medium-term and long-term working capital loans	—	—	—	178	—	178
Short-term working capital loans	110	—	68	—	—	—
Car loans	—	—	—	—	—	—
Credit card advances	69	—	—	50	—	—
Loans secured by deposits	—	—	—	—	—	—
Others	4,935	9	4,856	5,496	10	5,496
Individual loans total	13,945	24	13,740	14,947	28	14,897
Gross amount of loans and advances before allowance for impairment	57,081	100	23,244	52,680	100	27,950
Outside HK:	1,271,509			1,051,810		

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

6 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

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

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

The collateral rate of the Group is 36% as the year ended 31 December 2008 (2007: 35%).

(b) Provision on loans and advances by loan usage

Group and Bank

	Individually assessed to be impaired	Specific provision
31 December 2008		
Corporate	22,602	(14,823)
Individual	2,918	(1,560)
	25,520	(16,383)
Fair value of collateral	6,791	N/A

Group and Bank

	Individually assessed to be impaired	Specific provision
31 December 2007		
Corporate	20,971	(13,092)
Individual	1,723	(920)
	22,694	(14,012)
Fair value of collateral	6,481	N/A

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

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

6 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(b) Provision on loans and advances by loan usage *(Continued)*

The amount of new provisions charged to income statement, and the amount of impaired loans and advances written off during the year are disclosed in the below tables:

Group and Bank

	New provisions	Loans written off as uncollectible	Recoveries of advances written off in previous years
2008			
Corporate	9,678	1,887	(29)
Individual	1,067	40	(1)
	10,745	1,927	(30)

Group and Bank

	New provisions	Loans written off as uncollectible	Recoveries of advances written off in previous years
2007			
Corporate	5,663	1,019	(121)
Individual	952	63	(1)
	6,615	1,082	(122)

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

7 BUSINESS SEGMENT INFORMATION

Group

	Year ended 31 December 2008				
	Corporate	Retail	Treasury	Others and unallocated	Total
External net interest income/(expense)	40,862	1,029	23,888	83	65,862
Internal net interest income/(expense)	7,462	13,513	(20,975)	—	—
Net interest income	48,324	14,542	2,913	83	65,862
Net fee and commission income	3,711	4,277	—	849	8,837
Dividend income	—	—	—	83	83
Gains less losses arising from trading activities	720	41	954	(158)	1,557
Gains less losses arising from de-recognition of investment securities	—	—	320	(94)	226
Other operating income	344	3	3	361	711
Impairment losses on loans and advances	(9,648)	(1,067)	25	—	(10,690)
Other operating expenses					
— depreciation and amortisation	(1,158)	(1,374)	(19)	(689)	(3,240)
— others	(13,062)	(10,402)	(1,394)	(2,769)	(27,627)
Operating profit/(loss) before tax	29,231	6,020	2,802	(2,334)	35,719
Capital expenditure	2,696	3,107	28	1,329	7,160
Segment assets	1,082,928	221,593	1,363,138	15,288	2,682,947
Segment liabilities	(1,284,395)	(629,024)	(597,280)	(22,153)	(2,532,852)

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

7 BUSINESS SEGMENT INFORMATION *(Continued)*

Group

	Year ended 31 December 2007				
	Corporate	Retail	Treasury	Others and unallocated	Total
External net interest income/(expense)	32,965	118	20,934	(74)	53,943
Internal net interest income/(expense)	6,945	11,503	(18,448)	—	—
Net interest income	39,910	11,621	2,486	(74)	53,943
Net fee and commission income	3,257	3,856	6	(24)	7,095
Dividend income	—	—	41	36	77
Gains less losses arising from trading activities	810	6	(558)	(8)	250
Gains less losses arising from de-recognition of investment securities	—	—	290	367	657
Other operating income	308	52	10	397	767
Impairment losses on loans and advances	(5,653)	(840)	113	—	(6,380)
Other operating expenses					
— depreciation and amortisation	(832)	(1,046)	(179)	(841)	(2,898)
— others	(11,952)	(8,021)	(269)	(2,155)	(22,397)
Operating profit/(loss) before tax	25,848	5,628	1,940	(2,302)	31,114
Capital expenditure	2,266	2,782	475	1,961	7,484
Segment assets	903,502	185,870	1,002,534	18,538	2,110,444
Segment liabilities	(1,020,464)	(543,012)	(384,457)	(29,190)	(1,977,123)

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

8 LIQUIDITY RISK

The table on the following page analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	Repayable on demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Over due	Total
As at 31 December 2008								
Assets								
Cash and balances with central banks	362,180	–	–	–	–	–	–	362,180
Due from other banks and financial institutions	80,614	176,620	38,937	34,827	500	–	13	331,511
Financial assets held for trading	–	1,614	2,332	10,515	9,170	3,305	–	26,936
Loans and advances to customers	797	88,802	145,404	554,908	305,592	187,485	15,788	1,298,776
Investment securities								
— loans and receivables	–	625	9,659	34,542	45,116	961	–	90,903
— available-for-sale	–	4,306	15,536	43,165	59,204	19,799	–	142,010
— held-to-maturity	–	2,054	4,551	36,244	191,948	133,081	–	367,878
Other assets, including deferred tax assets	9,541	11,929	316	1,167	3,575	35,986	239	62,753
Total assets	453,132	285,950	216,735	715,368	615,105	380,617	16,040	2,682,947
Liabilities								
Due to other banks and financial institutions	(244,719)	(53,225)	(43,131)	(100,875)	(117,437)	(10,066)	–	(569,453)
Financial liabilities held for trading	–	(931)	(558)	(4,529)	(2,708)	(1,287)	–	(10,013)
Due to customers	(919,140)	(234,148)	(206,153)	(406,242)	(99,629)	(503)	–	(1,865,815)
Other liabilities, including deferred tax liabilities	(17,166)	(1,400)	(19,313)	(18,270)	(13,020)	(18,402)	–	(87,571)
Total liabilities	(1,181,025)	(289,704)	(269,155)	(529,916)	(232,794)	(30,258)	–	(2,532,852)
Net liquidity gap	(727,893)	(3,754)	(52,420)	185,452	382,311	350,359	16,040	150,095

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

8 LIQUIDITY RISK *(Continued)*

	Repayable on demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Over due	Total
As at 31 December 2007								
Assets								
Cash and balances with central banks	260,841	—	—	—	—	592	—	261,433
Due from other banks and financial institutions	30,207	97,544	16,223	12,110	26	—	—	156,110
Financial assets held for trading	—	2,172	5,178	5,056	4,904	2,030	—	19,340
Loans and advances to customers	865	72,497	132,333	434,784	229,664	197,788	14,857	1,082,788
Investment securities								
— loans and receivables	—	7	1,433	1,848	62,442	963	—	66,693
— available-for-sale	—	10,794	16,263	45,396	50,360	23,641	—	146,454
— held-to-maturity	—	4,261	12,420	57,776	149,696	102,800	—	326,953
Other assets, including deferred tax assets	2,485	2,219	6,567	2,948	12,581	23,518	355	50,673
Total assets	294,398	189,494	190,417	559,918	509,673	351,332	15,212	2,110,444
Liabilities								
Due to other banks and financial institutions	(174,532)	(48,932)	(26,538)	(17,563)	(50,650)	(14,341)	—	(332,556)
Financial liabilities held for trading	—	(286)	(1,091)	(4,884)	(3,610)	(157)	—	(10,028)
Due to customers	(878,014)	(174,383)	(150,146)	(276,808)	(76,242)	(6)	—	(1,555,599)
Other liabilities, including deferred tax liabilities	(16,394)	(5,817)	(1,052)	(15,026)	(14,682)	(25,969)	—	(78,940)
Total liabilities	(1,068,940)	(229,418)	(178,827)	(314,281)	(145,184)	(40,473)	—	(1,977,123)
Net liquidity gap	(774,542)	(39,924)	11,590	245,637	364,489	310,859	15,212	133,321

Reconciliation of Financial Information between CAS and IFRS

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

The reconciliation of net assets as at 31 December 2008 and net profit for the year ended 31 December 2008 from Chinese Accounting Standards ("**CAS**") to IFRS is listed as follows:

(in millions of RMB)

	Net Assets (including minority interest)		Net Profit (including minority interest)	
	31 December 2008	31 December 2007	2008	2007
CAS figures	145,642	128,797	28,520	20,641
Adjustments for accounting standard differences:				
1. Revaluation surplus/deficit from fixed assets	6,149	6,185	(234)	(128)
2. Differences arising from the transfer of the non-performing loans to China Cinda Asset Management Corporation	(104)	(329)	225	218
3. Deferred taxes	(1,647)	(1,492)	69	(315)
4. Others	55	160	(90)	(14)
IFRS figures	150,095	133,321	28,490	20,402

Explanation of the adjustments for accounting standard differences:

1. REVALUATION SURPLUS/DEFICIT FROM FIXED ASSETS

In 2008, the Group carried out a revaluation exercise on land and buildings for the purpose of the preparation of its IFRS financial statements, which was not a statutory valuation. The valuation surplus/deficit has been reflected in IFRS accounts, while it is not recognised in CAS financial statements. The differences arising from fixed assets valuation exercise has been reflected as an accounting standard difference accordingly. The difference will be depreciated during the remaining beneficiary period.

2. DIFFERENCES ARISING FROM THE TRANSFER OF THE NON-PERFORMING LOANS TO CHINA CINDA ASSET MANAGEMENT CORPORATION

On 27 June 2004, the Group disposed of non-performing loans (the "**Transferred Loans**") to China Cinda Asset Management Corporation in exchange for a bill issued by the People's Bank of China (the "**Bills**"). The amount of carrying value of the Transferred Loans in excess of the fair value of the Bills, net of tax, was offset against capital surplus in its IFRS financial statements. But under CAS the Bills were carried at face value. The discount will be amortised and recorded as interest income during the remaining beneficiary period of the Bills.

3. DEFERRED TAXES

In both CAS and IFRS financial statements prepared by the Bank, deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Accordingly, all adjustments on accounting standard differences also gave rise to deferred taxation differences.

4. OTHERS

All other differences are adjustments with minor amounts.

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P.C.: 213003
FAX: (0519) 86607630

YANCHENG BRANCH
68 Jian Jun Dong Lu, Yancheng
TEL: (0515) 88258200
SWIFT: COMMCNSHYCA
P.C.: 224002
FAX: (0515) 88299730

SUZHOU BRANCH
77 Nan Yuan Bei Lu, Suzhou
TEL: (0512) 65188666
SWIFT: COMMCNSHSUZ
P.C.: 215006
FAX: (0512) 65186051

WUXI BRANCH
198 Ren Min Zhong Lu, Wuxi
TEL: (0510) 82705226
SWIFT: COMMCNSHWXI
P.C.: 214001
FAX: (0510) 82701640

ZHEJIANG BRANCH
173 Qing Chun Lu, Hangzhou
TEL: (0571) 87216012 87216232
TLX: 351123 BOCOM CN
SWIFT: COMMCNSHHAN
P.C.: 310006
FAX: (0571) 87082330

WENZHOU BRANCH
Jiao Hang Plaza, Chezhandadao,
Wenzhou
TEL: (0577) 88068797
SWIFT: COMMCNSHWEN
P.C.: 325000
FAX: (0577) 88068567

JIAXING BRANCH
1086 Zhong Shan Dong Lu, Jiaxing
TEL: (0573) 82052112
SWIFT: COMMCNSHJXG
P.C.: 314001
FAX: (0573) 82052110

HUZHOU BRANCH
299 Ren Min Lu, Huzhou
TEL: (0572) 2212138
SWIFT: COMMCNSHHUZ
P.C.: 313000
FAX: (0572) 2214738

SHAOXING BRANCH
283 Ren Min Zhong Lu, Shaoxing
TEL: (0575) 85115890
SWIFT: COMMCNSHSXG
P.C.: 312000
FAX: (0575) 85137247

TAAIZHOU BRANCH
298 Dong Huan Da Dao,
Jiaojiang District, Taaizhou
TEL: (0576) 88599311
SWIFT: COMMCNSHTAA
P.C.: 318000
FAX: (0576) 88319000

JINHUA BRANCH
191 Shuangxi West Lu, Jinhua
TEL: (0579) 82139999
SWIFT: COMMCNSHJHA
P.C.: 321017
FAX: (0576) 82139998

NINGBO BRANCH
55 Zhong Shan Dong Lu, Ningbo
TEL: (0574) 87361089
SWIFT: COMMCNSHNBO
P.C.: 315000
FAX: (0574) 87262365

ANHUI BRANCH
38 Hua Yuan Jie, Hefei
TEL: (0551) 2637049
SWIFT: COMMCNSHHFI
P.C.: 230001
FAX: (0551) 2627010

WUHU BRANCH
BOCOM Tower, Beijing Xi Lu, Wuhu
TEL: (0553) 3839500
SWIFT: COMMCNSHWHU
P.C.: 241000
FAX: (0553) 3839531

BENGBU BRANCH
88 Nan Shan Lu, Bengbu
TEL: (0552) 2040377
SWIFT: COMMCNSHBBU
P.C.: 233000
FAX: (0552) 2040376

HUAINAN BRANCH
95 Chao Yang Zhong Lu, Huainan
TEL: (0554) 6657888
P.C.: 232001
FAX: (0554) 6651788

ANQING BRANCH
99 Long Shan Lu, Anqing
TEL: (0556) 5509699
SWIFT: COMMCNSHAQG
P.C.: 246004
FAX: (0556) 5509641

MAANSHAN BRANCH
156 Hu Dong Nan Lu, Maanshan
TEL: (0555) 2389158
SWIFT: COMMCNSHMAS
P.C.: 243000
FAX: (0555) 2389256

FUJIAN BRANCH
No. 116 Hu Dong Road, Fuzhou
TEL: (0591) 87874839 87874850
SWIFT: COMMCNSHFUZ
P.C.: 350003
FAX: (0591) 87874837

QUANZHOU BRANCH
No. 550 Feng Ze Street, Quanzhou
TEL: (0595) 22695559
SWIFT: COMMCNSHQUA
P.C.: 362000
FAX: (0595) 22132988

XIAMEN BRANCH
9 Hu Bin Zhong Lu, Xiamen
TEL: (0592) 2295012
SWIFT: COMMCNSHIMN
P.C.: 361004
FAX: (0592) 2295013

JIANGXI BRANCH
199 Hui Zhan Lu, Hong Gu Tan
New District, Nanchang
TEL: (0791) 8537722
SWIFT: COMMCNSHNCG
P.C.: 330038
FAX: (0791) 6214486

JINGDEZHEN BRANCH
1 Chang Nan Da Dao, Jingdezhen
TEL: (0798) 8570699
P.C.: 333000
FAX: (0798) 8570660

XINYU BRANCH
98 Bei Hu Xi Lu, Xinyu
TEL: (0790) 6441577
P.C.: 338000
FAX: (0790) 6441943

JIUJIANG BRANCH
139 Xun Yang Lu, Jiujiang
TEL: (0792) 8231117
SWIFT: COMMCNSHJJG
P.C.: 332000
FAX: (0792) 8118426

SHANDONG BRANCH
98 Gong Qing Tuan Lu, Jinan
TEL: (0531) 86106389
SWIFT: COMMCNSHJNN
P.C.: 250012
FAX: (0531) 86106390

ZIBO BRANCH
100 Jin Jing Da Dao,
Zhang Dian District, Zibo
TEL: (0533) 2180511
SWIFT: COMMCNSHZBO
P.C.: 255040
FAX: (0533) 2285517

WEIFANG BRANCH
358 Dong Feng Dong Jie, Weifang
TEL: (0536) 8190228
SWIFT: COMMCNSHWFG
P.C.: 261041
FAX: (0536) 8190228

YANTAI BRANCH
222 Nan Da Jie, Yantai
TEL: (0535) 6677088
SWIFT: COMMCNSHYTI
P.C.: 264000
FAX: (0535) 6677086

WEIHAI BRANCH
34 Hai Bin Bei Lu, Weihai
TEL: (0631) 5226210
SWIFT: COMMCNSHWHI
P.C.: 264200
FAX: (0631) 5230127

JINING BRANCH
36 Hong Xing Zhong Lu, Jining
TEL: (0537) 2883615
SWIFT: COMMCNSHJNG
P.C.: 272045
FAX: (0537) 2883615 2883659

TAIAN BRANCH
55 Dong Yue Da Jie, Taian
TEL: (0538) 8220402
SWIFT: COMMCNSHTAN
P.C.: 271000
FAX: (0538) 8220402

QINGDAO BRANCH
6 Zhong Shan Lu, Qingdao
TEL: (0532) 82967888
SWIFT: COMMCNSHQDO
P.C.: 266001
FAX: (0532) 83897062

HENAN BRANCH
11 Zheng Hua Lu, Zhengzhou
TEL: (0371) 69395000
SWIFT: COMMCNSHZHE
P.C.: 450008
FAX: (0371) 69395555

LUOYANG BRANCH
60 Kai Xuan Dong Lu, Luoyang
TEL: (0379) 63210987
SWIFT: COMMCNSHLYA
P.C.: 471000
FAX: (0379) 63938888

NANYANG BRANCH
25 Zhong Zhou Lu, Nanyang
TEL: (0377) 63322979
P.C.: 473000
FAX: (0379) 63322900

HUBEI BRANCH
847 Jianshe Avenue, Wuhan
TEL: (027) 85487110 85487101
SWIFT: COMMCNSHWHN
P.C.: 430015
FAX: (027) 85487112

HUANGSHI BRANCH
380 Yi Yang Lu, Huangshi
TEL: (0714) 6238934
SWIFT: COMMCNSHHSI
P.C.: 435000
FAX: (0714) 6221614

YICHANG BRANCH
22 Sheng Li Si Lu, Yichang
TEL: (0717) 6484982
SWIFT: COMMCNSHYCG
P.C.: 443000
FAX: (0717) 6484831

XIANGFAN BRANCH
8 Yan Jiang Da Dao Te, Fan Cheng
Xiangfan, Hubei
TEL: (0710) 3421858
SWIFT: COMMCNSHWHN
P.C.: 441000
FAX: (0710) 3421853

List of Branches (Continued)

HUNAN BRANCH
37 Shai Shan Zhong Lu, Changsha
TEL: (0731) 5555522
SWIFT: COMMCNSHCSA
P.C.: 410007
FAX: (0731) 5603737

YUEYANG BRANCH
Yin Du Mansion, Nan Hu Da Dao, Yueyang
TEL: (0730) 8296189
P.C.: 414000
FAX: (0730) 8296191

GUANGDONG BRANCH
123 Jie Fang Nan Lu, Guangzhou
TEL: (020) 83271333
SWIFT: COMMCNSHGUA
P.C.: 510120
FAX: (020) 83270386

ZHUHAI BRANCH
No. 1227, Jiu Zhou Da Dao Dong, Ji Da Zhuhai
TEL: (0756) 3338822
SWIFT: COMMCNSHZHI
P.C.: 519015
FAX: (0756) 3330881

SHANTOU BRANCH
83 Jin Sha Lu, Shantou
TEL: (0754) 88246988
SWIFT: COMMCNSHSTU
P.C.: 515041
FAX: (0754) 88611962

DONGGUAN BRANCH
190 Qi Feng Lu, Dongguan
TEL: (0769) 22336998
SWIFT: COMMCNSHDGN
P.C.: 523008
FAX: (0769) 22336908

ZHONGSHAN BRANCH
30 Yue Lai Nan Lu, Shi Qi District, Zhongshan
TEL: (0760) 88812999
SWIFT: COMMCNSHZSN
P.C.: 528400
FAX: (0760) 88808917

FOSHAN BRANCH
1-1 Ti Yu Lu, Chancheng District, Chancheng District, Foshan
TEL: (0757) 83215360
SWIFT: COMMCNSHFSA
P.C.: 528000
FAX: (0757) 83333125

JIEYANG SUB-BRANCH
6 Bei Huan Cheng Lu, Rong Cheng District, Jieyang
TEL: (0663) 8611739
P.C.: 522000
FAX: (0663) 8634640

HUIZHOU BRANCH
Bocom Building, 8 Yunshan Xi Lu, Jiang Bei, Huicheng District, Huicheng District, Huizhou
TEL: (0752) 2856111
SWIFT: COMMCNSHHUI
P.C.: 516003
FAX: (0752) 2856113

JIANGMEN BRANCH
18 Dong Hua Er Lu, Jiangmen
TEL: (0750) 3935168
SWIFT: COMMCNSHJMN
P.C.: 529000
FAX: (0750) 3935199

SHENZHEN BRANCH
2066 Shen Nan Zhong Lu, Shenzhen
TEL: (0755) 83680000
SWIFT: COMMCNSHSZN
P.C.: 518031
FAX: (0755) 83680033

GUANGXI ZHUANG AUTONOMOUS REGION BRANCH
228 Ren Min Dong Lu, Nanning
TEL: (0771) 2835260
SWIFT: COMMCNSHNNG
P.C.: 530012
FAX: (0771) 2835475

LIUZHOU BRANCH
32 Yue Jin Lu, Liuzhou
TEL: (0772) 2860711
SWIFT: COMMCNSHLIU
P.C.: 545001
FAX: (0772) 2866680

GUILIN BRANCH
8 Nan Huan Lu, Guilin
TEL: (0773) 2834167
SWIFT: COMMCNSHGLN
P.C.: 541002
FAX: (0773) 2826506

WUZHOU BRANCH
47 Da Zhong Lu, Wuzhou
TEL: (0774) 2832582
SWIFT: COMMCNSHWUZ
P.C.: 543000
FAX: (0774) 2827711

BEIHAI BRANCH
BOCOM Tower, 25 Yun Nan Lu, Beihai
TEL: (0779) 3088836
SWIFT: COMMCNSHBHI
P.C.: 536000
FAX: (0779) 3038440

HAINAN BRANCH
45, Guo Mao Lu, Finance and Trade Zone, Haikou
TEL: (0898) 68532666
SWIFT: COMMCNSHHNN
P.C.: 570125
FAX: (0898) 68532333

■ CHONGQING BRANCH
158 Zhong Shan San Lu,
Yu Zhong District, Chongqing
TEL: (023) 63639888
SWIFT: COMMCNSHCQG
P.C.: 400015
FAX: (023) 63851916

■ SICHUAN BRANCH
211 Xi Yu Long Jie, Chengdu
TEL: (028) 86525666
SWIFT: COMMCNSHCDU
P.C.: 610015
FAX: (028) 86525555

ZIGONG BRANCH
108 Wu Xing Jie, Zi Liu Jing
District, Zigong
TEL: (0813) 2105667
P.C.: 643000
FAX: (0813) 2105667

PANZHIHUA BRANCH
129 Bing Cao Gang Da Jie,
Panzhihua
TEL: (0812) 3334197
P.C.: 617000
FAX: (0812) 3334197

■ GUIZHOU BRANCH
4 Sheng Fu Lu, Guiyang
TEL: (0851) 5861460
SWIFT: COMMCNSHGYG
P.C.: 550001
FAX: (0851) 5861460

■ ZUNYI BRANCH
108 Zhong Hua Lu, Hong Hua Gang
District, Zunyi
TEL: (0852) 8824421
SWIFT: COMMCNSHZYI
P.C.: 563000
FAX: (0852) 8825356

■ YUNAN BRANCH
67 Hu Guo Lu, Kunming
TEL: (0871) 3107673
SWIFT: COMMCNSHKMG
P.C.: 650021
FAX: (0871) 3107584

■ QUJING BRANCH
At the crossing of Qilin Nan Lu and
Wenchang Street Qujing
TEL: (0874) 8988588 8988511
P.C.: 655000
FAX: (0874) 8988555

■ YUXI BRANCH
61 Yu Xing Lu, Hong Ta District,
Yuxi
TEL: (0877) 2056555
P.C.: 653100
FAX: (0877) 2056555

■ CHUXIONG BRANCH
102 Bei Pu Lu, Chuxiong
TEL: (0878) 3124223
P.C.: 675000
FAX: (0878) 3121712

■ SHAANXI BRANCH
88 Xi Xin Jie, Xian
TEL: (029) 87653017
SWIFT: COMMCNSHIAN
P.C.: 710004
FAX: (029) 87653019

■ XIANYANG BRANCH
B2 Middle Weiyang Lu, Xianyang
TEL: (029) 33177301
SWIFT:
P.C.: 712000
FAX: (029) 33177301

GANSU BRANCH
129 Qing Yang Lu, Lanzhou
TEL: (0931) 8105273
SWIFT: COMMCNSHLAN
P.C.: 730030
FAX: (0931) 8105124

■ NINGXIA HUI AUTONOMOUS REGION BRANCH
296 North Minzu Road, Yingchuan
TEL: (0951) 6916803
SWIFT: COMMCNSHWCN
P.C.: 750001
FAX: (0951) 5014268

■ XINJIANG LLYGUR AUTONOMOUS REGION BRANCH
16 Dong Feng Lu, Urumqi
TEL: (0991) 2833597
SWIFT: COMMCNSHWLM
P.C.: 830002
FAX: (0991) 2840184

Note: Branches and sub-branches marked with "■" are authorized to conduct international banking business

Overseas Offices

Hong Kong Branch

Address : 20 Pedder Street
Central, Hong Kong
Tel : (00852)-28419611
Fax : (00852)-28106993

New York Branch

Address : One Exchange Plaza,
55 Broadway,
31st & 32nd Floor
New York, USA
Postal Code : 10006-3008
Tel : (001)-(212)-376-8030
Fax : (001)-(212)-376-8089

Tokyo Branch

Address : Toranomon, No.37
Mori BLDG. 9F 3-5-1,
Toranomon Minalo-ku
Tokyo, Japan
Postal Code : 105-0001
Tel : (0081)-(3)-3432-1818
Fax : (0081)-(3)-3432-1824

Singapore Branch

Address : 50 Raffles Place
#26-04 Singapore
Land Tower
Postal Code : 048623
Tel : (0065)-65320335
Fax : (0065)-65320339

Seoul Branch

Address : 6th Floor Samsung Fire & Marine Bldg. #87, Euljiro 1-Ga, Jung-Gu, Seoul, Korea
Postal Code : 100-782
Tel : (0082)-(2)-2022-6888
Fax : (0082)-(2)-2022-6899

Frankfurt Branch

Address : Neue Mainzer Strasse 75, FFM Germany
Postal Code : 60311
Tel : (0049)-(69)-66058921
Fax : (0049)-(69)-66058938

Macau Branch

Address : 16/F AIA Tower, NO.251A-301, Avenida Comercial de Macau
Tel : (00853)-28286611
Fax : (00853)-28286686

London Representative Office

Address : 3rd Floor, 145 Leadenhall Street, London EC3V 4QT, UK
Tel : (0044)-(0)2079296050
Fax : (0044)-(0)2079296055

Definition

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

"the Bank"	Bank of Communications Co., Ltd
"the Group"	Bank of Communications Co., Ltd and its subsidiaries
"CBRC"	China Banking Regulatory Commission
"PBOC"	The People's Bank Of China
"Ministry of Finance"	Ministry of Finance of the People's Republic of China
"CSRC"	China Securities Regulatory Commission
"Shanghai Stock Exchange"	The Shanghai Stock Exchange
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Huijin"	Central SAFE Investments Company Limited
"SSF"	National Council for Social Security Fund
"HSBC"	The Hongkong and Shanghai Banking Corporation Limited
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Company Law"	the Company Law of the People's Republic of China
"Commercial Bank Law"	the Law of the People's Republic of China on Commercial Banks
"Articles of Association"	the Articles of Association of the Bank of Communications Co., Ltd as approved by CBRC
"Northern China"	includes Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province and the Inner Mongolia Autonomous Region
"North Eastern China"	includes Liaoning Province, Jilin Province and Heilongjiang Province
"Eastern China"	includes Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province
"Central and Southern China"	includes Henan Province, Hunan Province, Hubei Province Guangdong Province, Guangxi Autonomous Region and Hainan Province
"Western China"	includes Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region
"Overseas"	includes overseas subsidiaries and branches in Hong Kong, New York, Singapore, Tokyo, Seoul, Frankfurt and Macau
"Head Office" / "Headquarters"	the Bank's Head Office in Shanghai
"Yuan"/"RMB"	Renminbi
"basis point"	one in ten thousand
"impaired loans"	loans which are impaired due to objective evidence that the counterparty will be unable to pay amounts in full when due
"interest-earning assets"	customer loans, investment securities, receivables from banks and other financial institutions
"interest-bearing liabilities"	customer deposits, payables to banks and other financial institutions and other borrowings
"BOCOM Schroder"	Bank of Communications Schroder Fund Management Co., Ltd.
"BOCOM International Trust"	Bank of Communications International Trust Co., Ltd.
"BOCOM Leasing"	Bank of Communications Financial Leasing Co., Ltd.
"BOCOM International"	BOCOM International Holdings Company Limited
"BOCOM Insurance"	China BOCOM Insurance Co., Ltd.
"CRCB"	Jiangsu Changshu Rural Commercial Bank Co., Ltd.
"Dayi Bocom Xingmin Rural Bank"	Dayi Bocom Xingmin Rural Bank Co., Ltd.
"Reporting Period"	the financial year ended 31 December 2008

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BANK OF COMMUNICATIONS

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