中国建设银行
China Construction Bank

中國建設銀行股份有限公司

China Construction Bank Corporation

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

(Stock Code: 939)

ANNOUNCEMENT OF ANNUAL RESULTS 2008

SUMMARY OF RESULTS

The board of directors of China Construction Bank Corporation (the "Bank") is pleased to announce the audited results, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board, of the Bank and its subsidiaries (collectively the "Group") for the year ended 31 December 2008. The annual results have been reviewed by the audit committee of the Bank's board of directors.

Financial Highlights

(Expressed in millions of RMB unless otherwise stated)	**2008**	2007	**Change** (%)	2006	2005	2004
For the year						
Operating income	**269,747**	220,717	22.21	151,593	128,714	113,976
Profit before tax	**119,741**	100,816	18.77	65,717	55,364	51,199
Net profit	**92,642**	69,142	33.99	46,319	47,096	49,040
Net profit attributable to shareholders of the Bank	**92,599**	69,053	34.10	46,322	47,103	49,042
As at 31 December						
Net loans and advances to customers	**3,683,575**	3,183,229	15.72	2,795,976	2,395,313	2,173,562
Total assets	**7,555,452**	6,598,177	14.51	5,448,511	4,585,742	3,909,920
Deposits from customers	**6,375,915**	5,329,507	19.63	4,721,256	4,006,046	3,491,121
Total liabilities	**7,087,890**	6,175,896	14.77	5,118,307	4,298,065	3,714,369
Total equity attributable to shareholders of the Bank	**465,966**	420,977	10.69	330,109	287,579	195,516
Issued and paid-up capital	**233,689**	233,689	—	224,689	224,689	194,230
Per share (in RMB)						
Basic and diluted earnings per share	**0.40**	0.30	33.33	0.21	0.24	0.26
Interim cash dividend declared during the year	**0.1105**	0.067	64.93	—	NA	NA
Final cash dividend proposed after the balance sheet date	**0.0837**	0.065	28.77	0.092	0.015	NA
Special cash dividend declared during the year	**NA**	0.072716	NA	—	NA	NA
Net assets per share	**2.00**	1.81	10.50	1.47	1.28	1.01

Financial ratios (%)	2008	2007	Change +/(-)	2006	2005	2004
Profitability indicators						
Return on average assets[1]	**1.31**	1.15	0.16	0.92	1.11	1.31
Return on average equity	**20.68**	19.50	1.18	15.00	21.75	22.99
Net interest spread	**3.10**	3.07	0.03	2.69	2.70	2.77
Net interest margin	**3.24**	3.18	0.06	2.79	2.78	2.82
Net fee and commission income to operating income	**14.25**	14.19	0.06	8.95	6.57	5.68
Cost-to-income ratio	**36.77**	41.83	(5.06)	43.97	45.13	46.87
Loan-to-deposit ratio	**59.50**	61.40	(1.90)	60.87	61.37	63.80
Capital adequacy indicators						
Core capital adequacy ratio[2]	**10.17**	10.37	(0.20)	9.92	11.08	8.60
Capital adequacy ratio[2]	**12.16**	12.58	(0.42)	12.11	13.59	11.32
Total equity to total assets	**6.19**	6.40	(0.21)	6.06	6.27	5.00
Asset quality indicators						
Non-performing loan ratio	**2.21**	2.60	(0.39)	3.29	3.84	3.92
Allowances to non-performing loans	**131.58**	104.41	27.17	82.24	66.78	61.64
Allowances to total loans	**2.91**	2.72	0.19	2.70	2.57	2.42

1. Calculated by dividing net profit by the average of total assets at the beginning and end of the year.

2. Calculated in accordance with the guidelines issued by the China Banking Regulatory Commission ("CBRC").

Consolidated Income Statement

For the year ended 31 December 2008
(Expressed in millions of RMB unless otherwise stated)

	2008	2007	Change (%)
Interest income	**356,500**	284,823	25.17
Interest expense	**(131,580)**	(92,048)	42.95
Net interest income	**224,920**	192,775	16.67
Fee and commission income	**40,056**	32,731	22.38
Fee and commission expense	**(1,610)**	(1,418)	13.54
Net fee and commission income	**38,446**	31,313	22.78
Net trading gain	**3,213**	1,197	168.42
Dividend income	**150**	343	(56.27)
Net (loss)/income arising from investment securities	**(2,252)**	1,298	(273.50)
Other operating income/(loss), net	**5,270**	(6,209)	(184.88)
Operating income	**269,747**	220,717	22.21
Operating expenses	**(99,193)**	(92,327)	7.44
	170,554	128,390	32.84
Provisions for impairment losses on			
— loans and advances to customers	**(36,246)**	(20,106)	80.27
— others	**(14,583)**	(7,489)	94.73
Impairment losses	**(50,829)**	(27,595)	84.20
Share of profit in associate and jointly controlled entity	**16**	21	(23.81)
Profit before tax	**119,741**	100,816	18.77
Income tax	**(27,099)**	(31,674)	(14.44)
Net profit	**92,642**	69,142	33.99

Consolidated Income Statement

For the year ended 31 December 2008 (continued)
(Expressed in millions of RMB unless otherwise stated)

	2008	2007	**Change (%)**
Attributable to:			
Equity shareholders of the Bank	**92,599**	69,053	34.10
Minority interests	**43**	89	(51.69)
Net profit	**92,642**	69,142	33.99
Cash dividends payable to equity shareholders of the Bank			
Interim cash dividend declared during the year	**25,823**	15,054	71.54
Special cash dividend declared during the year	**—**	16,339	NA
Final cash dividend proposed after the balance sheet date	**19,560**	15,190	28.77
	45,383	46,583	(2.58)
Basic and diluted earnings per share (in RMB)	**0.40**	0.30	33.33

Consolidated Balance Sheet

As at 31 December 2008
(Expressed in millions of RMB unless otherwise stated)

	2008	2007	**Change (%)**
Assets			
Cash and deposits with central banks	**1,247,450**	843,724	47.85
Deposits with banks and non-bank financial institutions	**33,096**	24,108	37.28
Precious metals	**5,160**	1,013	409.38
Placements with banks and non-bank financial institutions	**16,836**	64,690	(73.97)
Trading financial assets	**50,309**	29,819	68.71
Positive fair value of derivatives	**21,299**	14,632	45.56
Financial assets held under resale agreements	**208,548**	137,245	51.95
Interest receivable	**38,317**	33,900	13.03
Loans and advances to customers	**3,683,575**	3,183,229	15.72
Available-for-sale financial assets	**550,838**	429,620	28.22
Held-to-maturity investments	**1,041,783**	1,191,035	(12.53)
Debt securities classified as receivables	**551,818**	551,336	0.09
Interests in associate and jointly controlled entity	**1,728**	1,099	57.23
Fixed assets	**63,957**	58,287	9.73
Long-term lease prepayment	**17,295**	17,650	(2.01)
Intangible assets	**1,253**	1,134	10.49
Goodwill	**1,527**	1,624	(5.97)
Deferred tax assets	**7,855**	35	223.43
Other assets	**12,808**	13,997	(8.49)
Total assets	**7,555,452**	6,598,177	14.51

Consolidated Balance Sheet

As at 31 December 2008 (continued)
(Expressed in millions of RMB unless otherwise stated)

	2008	2007	**Change (%)**
Liabilities			
Borrowings from central banks	**6**	6	—
Deposits from banks and non-bank financial institutions	**447,464**	516,563	(13.38)
Placements from banks and non-bank financial institutions	**43,108**	30,924	39.40
Trading financial liabilities	**3,975**	10,809	(63.23)
Negative fair value of derivatives	**18,565**	7,952	133.46
Financial assets sold under repurchase agreements	**864**	109,541	(99.21)
Deposits from customers	**6,375,915**	5,329,507	19.63
Accrued staff costs	**25,153**	22,747	10.58
Taxes payable	**35,538**	33,514	6.04
Interest payable	**59,695**	38,902	53.45
Provisions	**1,806**	1,656	9.06
Debt securities issued	**53,810**	49,212	9.34
Deferred tax liabilities	**5**	771	(99.35)
Other liabilities	**21,986**	23,792	(7.59)
Total liabilities	**7,087,890**	6,175,896	14.77
Equity			
Share capital	**233,689**	233,689	—
Capital reserve	**90,241**	90,241	—
Investment revaluation reserve	**11,156**	16,408	(32.01)
Surplus reserve	**26,922**	17,845	50.87
General reserve	**46,628**	31,548	47.80
Retained earnings	**59,593**	32,164	85.28
Exchange reserve	**(2,263)**	(918)	146.51
Total equity attributable to equity shareholders of the Bank	**465,966**	420,977	10.69
Minority interests	**1,596**	1,304	22.39
Total equity	**467,562**	422,281	10.72
Total liabilities and equity	**7,555,452**	6,598,177	14.51

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008
(Expressed in millions of RMB)

	Attributable to equity shareholders of the Bank								
	Share capital	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Minority interests	Total equity
As at 1 January 2008	**233,689**	**90,241**	**16,408**	**17,845**	**31,548**	**32,164**	**(918)**	**1,304**	**422,281**
Movements during the year	**—**	**—**	**(5,252)**	**9,077**	**15,080**	**27,429**	**(1,345)**	**292**	**45,281**
(1) Net profit	**—**	**—**	**—**	**—**	**—**	**92,599**	**—**	**43**	**92,642**
(2) Gain and loss directly recognised in equity	**—**	**—**	**(5,252)**	**—**	**—**	**—**	**(1,345)**	**(2)**	**(6,599)**
i Net changes in fair value of available-for-sale financial assets	—	—	(6,996)	—	—	—	—	(2)	(6,998)
— Recognised in equity	—	—	(18,996)	—	—	—	—	(2)	(18,998)
— Recognised in income statement	—	—	12,000	—	—	—	—	—	12,000
ii Deferred tax in relation to items recognised in equity	—	—	1,744	—	—	—	—	—	1,744
iii Exchange reserve	—	—	—	—	—	—	(1,345)	—	(1,345)
Subtotal of (1) and (2)	—	—	(5,252)	—	—	92,599	(1,345)	41	86,043
(3) Changes in share capital	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**274**	**274**
i Capital injection by minority interests	—	—	—	—	—	—	—	212	212
ii Disposal of equity in a subsidiary	—	—	—	—	—	—	—	38	38
iii Minority interests of new subsidiary	—	—	—	—	—	—	—	24	24
(4) Profit distribution	**—**	**—**	**—**	**9,077**	**15,080**	**(65,170)**	**—**	**(23)**	**(41,036)**
i Appropriation to surplus reserve	—	—	—	9,077	—	(9,077)	—	—	—
ii Appropriation to general reserve	—	—	—	—	15,080	(15,080)	—	—	—
iii Appropriation to shareholders	—	—	—	—	—	(41,013)	—	(23)	(41,036)
As at 31 December 2008	**233,689**	**90,241**	**11,156**	**26,922**	**46,628**	**59,593**	**(2,263)**	**1,596**	**467,562**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007 (continued)
(Expressed in millions of RMB)

	Attributable to equity shareholders of the Bank								
	Share capital	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Minority interests	Total equity
As at 1 January 2007	224,689	42,091	(1,226)	11,133	10,343	43,092	(13)	95	330,204
Movements during the year	9,000	48,150	17,634	6,712	21,205	(10,928)	(905)	1,209	92,077
(1) Net profit	—	—	—	—	—	69,053	—	89	69,142
(2) Gain and loss directly recognised in equity	—	31	17,634	—	—	—	(905)	—	16,760
i Net changes in fair value of available-for-sale financial assets	—	—	23,716	—	—	—	—	—	23,716
— Recognised in equity	—	—	21,202	—	—	—	—	—	21,202
— Recognised in income statement	—	—	2,514	—	—	—	—	—	2,514
ii Deferred tax in relation to items recognised in equity	—	—	(5,937)	—	—	—	—	—	(5,937)
iii Effect of change in tax rate	—	—	(145)	—	—	—	—	—	(145)
iv Exchange reserve	—	—	—	—	—	—	(905)	—	(905)
v Others	—	31	—	—	—	—	—	—	31
Subtotal of (1) and (2)	—	31	17,634	—	—	69,053	(905)	89	85,902
(3) Changes in share capital	9,000	48,119	—	—	—	—	—	1,120	58,239
i Share issuance	9,000	48,119	—	—	—	—	—	—	57,119
ii Minority interests of new subsidiary	—	—	—	—	—	—	—	1,120	1,120
(4) Profit distribution	—	—	—	6,712	21,205	(79,981)	—	—	(52,064)
i Appropriation to surplus reserve	—	—	—	6,712	—	(6,712)	—	—	—
ii Appropriation to general reserve	—	—	—	—	21,205	(21,205)	—	—	—
iii Appropriation to shareholders	—	—	—	—	—	(52,064)	—	—	(52,064)
As at 31 December 2007	233,689	90,241	16,408	17,845	31,548	32,164	(918)	1,304	422,281

Consolidated Cash Flow Statement

For the year ended 31 December 2008
(Expressed in millions of RMB)

	2008	2007
Operating activities		
Profit before tax	**119,741**	100,816
Adjustments for:		
— dividend income	**(150)**	(343)
— revaluation gain on trading and derivatives financial instruments	**(1,977)**	(659)
— net loss/(gain) on disposal of investment securities	**2,252**	(1,298)
— net gain on disposal of fixed assets and other long-term assets	**(99)**	(174)
— unwinding of discount	**(1,564)**	(1,939)
— share of profit in associate and jointly controlled entity	**(16)**	(21)
— unrealised foreign exchange loss	**10,454**	8,309
— depreciation charges and amortisation	**9,351**	7,847
— impairment losses	**50,829**	27,595
— interest expense on bonds issued	**2,030**	1,942
	190,851	142,075
Increase in operating assets and liabilities:		
Net increase in deposit with central banks and with banks and non-bank financial institutions	**(198,447)**	(331,585)
Net decrease/(increase) in placements to banks and non-bank financial institutions	**7,770**	(1,469)
Net increase in loans and advances to customers	**(551,987)**	(418,314)
Increase in other operating assets	**(160,973)**	(135,953)
Net decrease in borrowings from central banks	**—**	(15)
Net increase in placements from banks and non-bank financial institutions	**15,084**	7,213
Net increase in deposits from customers and from banks and non-bank financial institutions	**989,418**	938,477
Net increase in certificates of deposit	**2,435**	2,913
Income tax paid	**(32,187)**	(24,219)
(Decrease)/increase in other operating liabilities	**(81,318)**	115,191
Net cash from operating activities	**180,646**	294,314

Consolidated Cash Flow Statement

For the year ended 31 December 2008 (continued)
(Expressed in millions of RMB)

	2008	2007
Investing activities		
Proceeds from disposal and redemption of investment securities	**968,424**	857,744
Dividend received	**150**	343
Proceeds from capital contribution by minority interest	**236**	1,120
Disposal of subsidiaries	**38**	—
Proceeds from disposal of fixed assets and other long-term assets	**655**	588
Payments on acquisition of investment securities	**(912,363)**	(1,128,576)
Payments on acquisition of associate and jointly controlled entity	**(682)**	(1,001)
Payments on acquisition of fixed assets and other long-term assets	**(17,699)**	(12,925)
Net cash from/(used in) investing activities	**38,759**	(282,707)
Financing activities		
Proceeds from bonds issued	**2,852**	—
Proceeds from share issuance	**—**	57,119
Dividend paid	**(40,960)**	(52,064)
Interest expenses paid on bonds issued	**(2,005)**	(1,915)
Net cash (used in)/from financing activities	**(40,113)**	3,140
Effect of exchange rate changes on cash and cash equivalents held	**(3,989)**	(1,728)
Net increase in cash and cash equivalents	**175,303**	13,019
Cash and cash equivalents as at 1 January	**180,508**	167,489
Cash and cash equivalents as at 31 December	**355,811**	180,508
Cash flows from operating activities include:		
Interest received	**283,299**	270,276
Interest paid, excluding interest expense on bonds issued	**(108,771)**	(85,525)

Notes:

1 The IFRS financial statements of the Group for the year ended 31 December 2008 will be available on the website of The Stock Exchange of Hong Kong Limited. These financial statements have been prepared in accordance with IFRS and its interpretations promulgated by the International Accounting Standards Board, and the disclosure requirements of the Hong Kong *Companies Ordinance*. These financial statements also comply with the applicable disclosure provisions of the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* ("Listing Rules of Hong Kong Stock Exchange").

2 There are no significant changes in the accounting policies adopted in the preparation of the results announcement compared to the year ended 31 December 2007.

3 Unless otherwise stated, the financial figures are expressed in millions of RMB.

4 For the purpose of this results announcement, the Mainland China excludes the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), the Macau Special Administrative Region of the PRC ("Macau"), and Taiwan.

5 Net (loss)/income arising from investment securities

	2008	2007
Net income on sale of available-for-sale securities	**1,898**	1,375
Net revaluation loss transferred from equity on disposal	**(247)**	(79)
Net loss on sale of held-to-maturity investments	**(3,905)**	(4)
Net income on sale of debt securities classified as receivables	**2**	6
Total	**(2,252)**	1,298

6 Operating expenses

	2008	2007
Staff costs		
— Salaries, bonuses and allowances	**32,252**	27,762
— Defined contribution retirement schemes	**4,294**	3,645
— Other social insurance and welfare	**5,813**	5,670
— Housing fund	**2,612**	2,329
— Labor union expenses and employee education expenses	**1,073**	930
— Supplementary retirement benefits	**568**	505
— Early retirement expenses	**—**	8,998
— Staff termination costs	**45**	68
	46,657	49,907
Premises and equipment expenses		
— Depreciation charges	**7,671**	6,735
— Rent and property management expenses	**3,581**	3,078
— Maintenance	**1,627**	1,518
— Utilities	**1,342**	1,167
— Others	**736**	719
	14,957	13,217
Amortisation expenses	**1,680**	1,112
Business tax and surcharges	**15,793**	12,337
Audit fees	**167**	122
Other general and administrative expenses	**19,939**	15,632
Total	**99,193**	92,327

7 Income tax

(1) Income tax expenses

	2008	2007
Current tax		
— Mainland China	**33,905**	33,916
— Hong Kong	**299**	335
— Other countries and regions	**22**	22
	34,226	34,273
Adjustments on income tax for prior years	**(285)**	71
Deferred tax recognised in current year	**(6,842)**	(2,670)
Total	**27,099**	31,674

The provision for Mainland China income tax for 2008 is calculated at 25% (2007: 33%) of the estimated taxable income from Mainland operations for the year. The provision for Hong Kong profits tax for 2008 is calculated at 16.5% (2007: 17.5%) of the estimated taxable income from Hong Kong operations for the year. Taxation for other overseas operations is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

(2) Reconciliation between tax expense and accounting profit

	Note	**2008**	2007
Profit before tax		**119,741**	100,816
Income tax calculated at statutory tax rate	(a)	**29,935**	33,269
Non-deductible expenses			
— Staff costs		**684**	612
— Impairment losses and bad debt write-off		**8**	1,247
— Others		**446**	926
		1,138	2,785
Non-taxable income			
— Interest income from PRC government bonds		**(3,466)**	(3,677)
— Others		**(223)**	(980)
		(3,689)	(4,657)
Total		**27,384**	31,397
Effect of change in tax rate on deferred tax	(a)	**—**	206
Adjustments for prior years		**(285)**	71
Income tax expense		**27,099**	31,674

(a) Pursuant to the new income tax law, the income tax rate that is applicable to the Bank and its subsidiaries in the Mainland China reduced from 33% to 25% effective from 1 January 2008. Deferred tax assets and liabilities were adjusted for the change in tax rate through income statement or the equity in 2007.

8 Earnings per share

Basic earnings per share for the year ended 31 December 2008 have been computed by dividing the net profit attributable to shareholders of the Bank of RMB92,599 million (2007: RMB69,053 million) by 233,689 million shares (2007: 227,105 million shares), being the weighted average number of ordinary shares that were in issue during the year. There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the years ended 31 December 2008 and 2007.

Weighted average number of ordinary shares (in million shares)

	2008	2007
Issued ordinary shares at 1 January	**233,689**	224,689
Weighted average of A-share issued during the year (note)	**—**	2,416
Weighted average number of ordinary shares at 31 December	**233,689**	227,105

Note: On 25 September 2007, the Bank issued 9,000 million A-shares. The time-weighting factor has been taken into account in arriving the weighted average number of ordinary shares as at 31 December. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period.

9 Deposits from customers

	2008	2007
Demand deposits		
— Corporate customers	**2,233,187**	2,130,411
— Personal customers	**1,137,114**	1,000,525
	3,370,301	3,130,936
Time deposits (including call deposits)		
— Corporate customers	**1,152,126**	858,045
— Personal customers	**1,853,488**	1,340,526
	3,005,614	2,198,571
Total	**6,375,915**	5,329,507

Deposits from customers include:

(1) Pledged deposits

	2008	2007
Deposits for acceptance	**88,833**	55,622
Deposits for guarantee	**24,141**	16,208
Deposits for letter of credit	**11,657**	11,012
Others	**35,322**	40,111
	159,953	122,953

	2008	2007
(2) Outward remittance and remittance payables	**21,287**	29,134

10 Commitments and contingent liabilities

(1) Credit commitments

Credit commitments take the form of approved loans with signed contracts and credit card limits. The Group also provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. The Group assesses and makes allowance for any probable losses accordingly.

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties failed completely to perform as contracted. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

As the facilities may expire without being drawn upon, the total of the contractual amounts set out in the following table is not representative of expected future cash outflows.

	2008	2007
Loan commitments		
— with an original maturity under one year	**47,941**	53,973
— with an original maturity of one year or over	**259,904**	213,543
Credit card commitments	**174,714**	99,086
	482,559	366,602
Bank acceptances	**219,603**	143,166
Financing guarantees	**182,518**	124,772
Performing guarantees	**362,668**	246,135
Sight letters of credit	**36,386**	34,486
Usance letters of credit	**35,110**	45,156
Others	**31,636**	9,242
Total	**1,350,480**	969,559

(2) Credit risk-weighted amount

The credit risk-weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% of contingent liabilities and commitments.

	2008	2007
Credit risk-weighted amount of contingent liabilities and commitments	**660,982**	479,813

(3) Operating lease commitments

The Group and the Bank lease certain property and equipment under operating leases, which typically run for an initial period of one to five years and may include an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals. At the balance sheet date, the future minimum lease payments under non-cancellable operating leases for property and equipment were as follows:

	2008	2007
Within one year	**2,458**	1,838
After one year but within two years	**2,018**	1,444
After two years but within three years	**1,571**	1,282
After three years but within five years	**2,150**	1,616
After five years	**1,345**	1,437
Total	**9,542**	7,617

(4) Capital commitments

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

	2008	2007
Contracted for	**6,333**	1,791
Authorised but not contracted for	**558**	1,150
Total	**6,891**	2,941

(5) Underwriting obligations

At the balance sheet date, the unexpired underwriting commitments of bonds were as follows:

	2008	2007
Underwriting obligations	**—**	10,950

(6) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group and the Bank, but not yet matured at the balance sheet date:

	2008	2007
Redemption obligations	**62,677**	71,423

(7) Outstanding litigation and disputes

As at 31 December 2008, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB2,781 million (2007: RMB2,557 million). Provisions have been made for the estimated losses arising from such litigations based upon the opinions of the Group's internal and external legal counsels (Note 47). The Group considers that the provisions made are reasonable and adequate.

(8) Provision against commitments and contingent liabilities

The Group and the Bank have assessed and made provision for any probable outflow of economic benefits in relation to the above commitments and contingent liabilities in accordance with their accounting policies.

11 Derivatives

(1) Analysed by type of contract

	2008			2007		
	Notional amounts	**Assets**	**Liabilities**	Notional amounts	Assets	Liabilities
Interest rate contracts	**183,695**	**9,016**	**9,451**	121,169	1,322	1,403
Currency contracts	**489,431**	**11,758**	**9,114**	584,108	13,308	6,548
Precious metal contracts	**510**	**10**	**—**	67	—	1
Equity instrument contracts	**806**	**515**	**—**	36	2	—
Total	**674,442**	**21,299**	**18,565**	705,380	14,632	7,952

The notional amounts of derivatives only represent the unsettled transaction volume as at balance sheet date, they do not represent the amounts at risk.

(2) Analysed by credit risk-weighted amount

	2008	2007
Interest rate contracts	**9,304**	1,843
Currency contracts	**7,070**	4,040
Precious metal contracts	**1**	—
Equity instrument contracts	**526**	2
Total	**16,901**	5,885

The credit risk-weighted amount is computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics. For the credit risk-weighted amounts stated above, effects of bilateral netting arrangements have been taken into account.

12 Segment reporting

The Group managed its business both by business segments and geographical segments. Accordingly, both business and geographical segment information is presented as the Group's primary segment reporting formats.

Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Net interest income and expenses arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expenses". Interest income and expenses earned from third parties are referred to as "external net interest income/expenses".

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, results, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the period to acquire fixed assets, intangible assets and other long-term assets.

(1) Business segments

The Group comprises the following main business segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit taking activities, agency services, financial consulting and advisory services, cash management services, remittance and settlement services, custody services and guarantee services, etc.

Personal banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans, deposit taking activities, card business, personal wealth management services, remittance services and securities agency services, etc.

Treasury business

This segment covers the Bank's treasury operations. The treasury enters into inter-bank money market transactions, repurchase and resale transactions, and invests in debt securities. It also trades in derivatives and foreign currency for its own account. The treasury carries out customer-driven derivatives, foreign currency and precious metal trading. Its function also includes the management of the Bank's overall liquidity position, including the issuance of debt securities.

Others and unallocated

These represent equity investments and the revenues, results, assets and liabilities that are not directly attributable to a segment or cannot be allocated on a reasonable basis.

	2008					
	Corporate banking	Personal banking	Treasury business	Others and unallocated	Elimination	Total
External net interest income/(expenses)	148,357	(18,076)	92,651	1,988	—	224,920
Internal net interest (expenses)/income	(22,347)	76,493	(52,023)	(2,123)	—	—
Net interest income	126,010	58,417	40,628	(135)	—	224,920
Net fee and commission income	15,350	15,286	7,085	725	—	38,446
Net trading gain	138	293	1,489	1,293	—	3,213
Dividend income	—	—	—	150	—	150
Net (loss)/income arising from investment securities	—	—	(4,166)	1,914	—	(2,252)
Other net operating income	578	577	2,330	1,785	—	5,270
Operating income	142,076	74,573	47,366	5,732	—	269,747
Operating expenses	(42,824)	(49,742)	(2,857)	(3,770)	—	(99,193)
Impairment losses	(31,884)	(4,582)	(12,999)	(1,364)	—	(50,829)
Share of profit in associate and jointly controlled entity	—	—	—	16	—	16
Profit before tax	67,368	20,249	31,510	614	—	119,741
Capital expenditure	5,905	11,038	887	41	—	17,871
Depreciation and amortization	3,061	5,723	460	107	—	9,351
Segment assets	3,214,610	863,351	3,358,278	—	(32,717)	7,403,522
Interests in associate and jointly controlled entity	—	—	—	1,728	—	1,728
Unallocated assets	—	—	—	150,202	—	150,202
Total assets	3,214,610	863,351	3,358,278	151,930	(32,717)	7,555,452
Segment liabilities	3,431,049	3,426,013	70,789	—	(32,717)	6,895,134
Unallocated liabilities	—	—	—	192,756	—	192,756
Total liabilities	3,431,049	3,426,013	70,789	192,756	(32,717)	7,087,890
Off-balance sheet credit commitments	1,168,055	182,425	—	—	—	1,350,480

	2007					
	Corporate banking	Personal banking	Treasury business	Others and unallocated	Elimination	Total
External net interest income/(expenses)	120,508	(4,261)	74,595	1,933	—	192,775
Internal net interest (expenses)/income	(11,096)	57,219	(45,018)	(1,105)	—	—
Net interest income/ (expenses)	109,412	52,958	29,577	828	—	192,775
Net fee and commission income	7,471	20,344	2,750	748	—	31,313
Net trading gain	4	97	345	751	—	1,197
Dividend income	—	—	—	343	—	343
Net income arising from investment securities	—	—	318	980	—	1,298
Other operating income/ (loss)	174	42	(7,873)	1,448	—	(6,209)
Operating income	117,061	73,441	25,117	5,098	—	220,717
Operating expenses	(37,787)	(44,799)	(5,015)	(4,726)	—	(92,327)
Impairment losses	(17,883)	(2,496)	(6,755)	(461)	—	(27,595)
Share of profit in associate and jointly controlled entity	—	—	—	21	—	21
Profit/(loss) before tax	61,391	26,146	13,347	(68)	—	100,816
Capital expenditure	4,656	7,346	769	153	—	12,924
Depreciation and amortization	2,827	4,460	467	93	—	7,847
Segment assets	2,748,782	786,851	2,960,545	—	(30,786)	6,465,392
Interests in associate and jointly controlled entity	—	—	—	1,099	—	1,099
Unallocated assets	—	—	—	131,686	—	131,686
Total assets	2,748,782	786,851	2,960,545	132,785	(30,786)	6,598,177
Segment liabilities	3,218,771	2,673,979	178,398	—	(30,786)	6,040,362
Unallocated liabilities	—	—	—	135,534	—	135,534
Total liabilities	3,218,771	2,673,979	178,398	135,534	(30,786)	6,175,896
Off-balance sheet credit commitments	861,646	107,913	—	—	—	969,559

(2) Geographical segments

The Group operates principally in Mainland China with branches covering all provinces, autonomous regions and municipalities directly under the central government, and several subsidiaries located in Mainland China. The Group also has bank branch operations in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo, and Seoul, and certain subsidiaries operating in Hong Kong.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches and subsidiaries that generate the income. Segment assets and capital expenditure are allocated based on the geographical location of the underlying assets.

Geographical segments, as defined for management reporting purposes, are as follows:

— "Yangtze River Delta" refers to the following areas serviced by the tier-1 branches of the Bank: Shanghai Municipality, Jiangsu Province, Zhejiang Province, City of Ningbo and City of Suzhou;

— "Pearl River Delta" refers to the following areas serviced by the tier-1 branches of the Bank: Guangdong Province, City of Shenzhen, Fujian Province and City of Xiamen;

— "Bohai Rim" refers to the following areas serviced by the subsidiaries and tier-1 branches of the Bank: Beijing Municipality, Shandong Province, Tianjin Municipality, Hebei Province and City of Qingdao;

— the "Central" region refers to the following areas serviced by the subsidiary and tier-1 branches of the Bank: Shanxi Province, Guangxi Autonomous Region, Hubei Province, Henan Province, Hunan Province, Jiangxi Province, Hainan Province, Anhui Province and the Three Gorges Area;

— the "Western" region refers to the following areas serviced by the tier-1 branches of the Bank: Sichuan Province, Chongqing Municipality, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Inner Mongolia Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region; and

— the "Northeastern" region refers to the following areas serviced by the tier-1 branches of the Bank: Liaoning Province, Jilin Province, Heilongjiang Province and City of Dalian.

	2008									
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	North Eastern	Head Office	Overseas	Elimination	Total
External net interest income	37,756	17,097	19,940	21,850	24,064	5,949	95,727	2,537	—	224,920
Internal net interest income/(expenses)	6,770	11,327	13,847	10,276	7,913	6,285	(56,222)	(196)	—	—
Net interest income	44,526	28,424	33,787	32,126	31,977	12,234	39,505	2,341	—	224,920
Net fee and commission income	9,758	6,237	6,405	5,911	5,150	2,299	2,326	360	—	38,446
Net trading gain	311	360	158	45	128	63	779	1,369	—	3,213
Dividend income	5	—	35	23	5	—	63	19	—	150
Net income/(loss) arising from investment securities	83	22	497	324	117	104	(3,543)	144	—	(2,252)
Other net operating income	402	270	461	516	529	203	2,432	457	—	5,270
Operating income	55,085	35,313	41,343	38,945	37,906	14,903	41,562	4,690	—	269,747
Operating expenses	(19,083)	(13,324)	(15,729)	(16,776)	(16,519)	(7,116)	(9,223)	(1,423)	—	(99,193)
Impairment losses	(6,484)	(4,128)	(7,034)	(6,387)	(9,549)	(2,353)	(13,944)	(950)	—	(50,829)
Share of profit in associate and jointly controlled entity	—	—	—	—	—	—	—	16	—	16
Profit before tax	29,518	17,861	18,580	15,782	11,838	5,434	18,395	2,333	—	119,741
Capital expenditure	2,843	1,984	2,421	3,186	2,752	1,376	2,933	376	—	17,871
Depreciation and amortisation	1,685	1,169	1,429	1,615	1,412	680	1,293	68	—	9,351
Segment assets	1,468,824	1,074,866	1,369,934	1,157,174	1,170,334	507,337	3,523,723	119,865	(2,846,188)	7,545,869
Interests in associate and jointly controlled entity	—	—	—	—	—	—	—	1,728	—	1,728
	1,468,824	1,074,866	1,369,934	1,157,174	1,170,334	507,337	3,523,723	121,593	(2,846,188)	7,547,597
Unallocated assets										7,855
Total assets										7,555,452
Segment liabilities	1,466,440	1,074,054	1,367,662	1,158,073	1,173,707	507,936	3,064,993	121,208	(2,846,188)	7,087,885
Unallocated liabilities										5
Total liabilities										7,087,890
Off-balance sheet credit commitments	386,800	193,746	284,558	172,079	186,488	89,428	15,936	21,445	—	1,350,480

	2007									
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	North Eastern	Head Office	Overseas	Elimination	Total
External net interest income	32,260	15,108	19,267	18,805	20,670	5,712	78,295	2,658	—	192,775
Internal net interest income/(expenses)	6,499	9,054	10,024	8,070	6,001	4,922	(43,616)	(954)	—	—
Net interest income	38,759	24,162	29,291	26,875	26,671	10,634	34,679	1,704	—	192,775
Net fee and commission income	5,921	5,147	5,578	5,276	4,836	2,426	1,602	527	—	31,313
Net trading gain/(loss)	102	87	96	33	29	33	(49)	866	—	1,197
Dividend income	2	—	71	103	38	3	119	7	—	343
Net income arising from investment securities	44	162	342	143	159	139	310	(1)	—	1,298
Other operating income/(loss)	224	235	223	357	348	116	(8,468)	756	—	(6,209)
Operating income	45,052	29,793	35,601	32,787	32,081	13,351	28,193	3,859	—	220,717
Operating expenses	(15,440)	(11,108)	(12,919)	(14,443)	(13,754)	(6,177)	(17,267)	(1,219)	—	(92,327)
Impairment losses	(3,678)	(3,738)	(5,762)	(2,885)	(2,980)	(2,034)	(6,356)	(162)	—	(27,595)
Share of profit in associate and jointly controlled entity	—	—	—	—	—	—	—	21	—	21
Profit before tax	25,934	14,947	16,920	15,459	15,347	5,140	4,570	2,499	—	100,816
Capital expenditure	2,249	1,579	2,353	2,049	2,028	983	1,513	170	—	12,924
Depreciation and amortisation	1,486	1,040	1,178	1,395	1,194	562	944	48	—	7,847
Segment assets	1,308,774	952,276	1,172,087	968,641	917,902	436,686	3,091,749	102,812	(2,353,884)	6,597,043
Interests in associate and jointly controlled entity	—	—	—	—	—	—	—	1,099	—	1,099
	1,308,774	952,276	1,172,087	968,641	917,902	436,686	3,091,749	103,911	(2,353,884)	6,598,142
Unallocated assets										35
Total assets										6,598,177
Segment liabilities	1,305,366	950,489	1,166,755	968,695	917,340	437,124	2,677,440	105,800	(2,353,884)	6,175,125
Unallocated liabilities										771
Total liabilities										6,175,896
Off-balance sheet credit commitments	268,705	134,329	215,944	130,146	131,331	47,022	14,224	27,858	—	969,559

Unaudited Supplementary Financial Information

(a) Liquidity ratios

	As at 31 December 2008	**Average for the year ended 31 December 2008**	As at 31 December 2007	Average for the year ended 31 December 2007
RMB current assets to RMB current liabilities	**52.74%**	**47.45%**	40.98%	43.52%
Foreign currency current assets to foreign currency current liabilities	**109.84%**	**111.27%**	100.51%	172.01%

The above liquidity ratios are calculated in accordance with the formula promulgated by the China Banking Regulatory Commission.

The Hong Kong Banking (Disclosure) Rules (the "Rules") took effect on 1 January, 2007. It requires the disclosure of average liquidity ratio, which being the arithmetic mean of each calendar month liquidity ratio. The Group prepared liquidity ratio on a semi-annual basis and the disclosed average liquidity ratio is the arithmetic mean of two consecutive liquidity ratios as at 30 June and 31 December.

(b) Currency concentrations

	2008			
	USD (RMB equivalent)	**HKD (RMB equivalent)**	**Others (RMB equivalent)**	**Total (RMB equivalent)**
Spot assets	**267,877**	**82,948**	**43,113**	**393,938**
Spot liabilities	**(172,382)**	**(72,158)**	**(35,691)**	**(280,231)**
Forward purchases	**160,471**	**12,764**	**76,185**	**249,420**
Forward sales	**(259,483)**	**(5,877)**	**(82,006)**	**(347,366)**
Net option position	**—**	**—**	**—**	**—**
Net (short)/long position	**(3,517)**	**17,677**	**1,601**	**15,761**
Net structural position	**—**	**169**	**136**	**305**

	2007			
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	454,533	73,927	46,589	575,049
Spot liabilities	(167,987)	(78,756)	(30,169)	(276,912)
Forward purchases	155,788	21,834	33,183	210,805
Forward sales	(403,066)	(4,925)	(43,025)	(451,016)
Net option position	(4)	—	4	—
Net long position	39,264	12,080	6,582	57,926
Net structural position	31	378	57	466

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority (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 property and equipment, net of accumulated depreciation;

— capital and statutory reserves of overseas branches; and

— investments in overseas subsidiaries and related companies.

(c) Cross-border claims

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

For the purpose of this unaudited supplementary financial information, Mainland China excludes the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), the Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

Cross-border claims include loans and advances, deposits and placements with banks and non-bank financial institutions, holdings of trade bills and certificates of deposit and investment securities.

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

	2008			
	Banks and non-bank financial institutions	**Public sector entities**	**Others**	**Total**
Asia Pacific excluding Mainland China	**16,029**	**2,665**	**59,694**	**78,388**
— of which attributed to Hong Kong	**11,459**	**1,358**	**37,296**	**50,113**
Europe	**17,859**	**59**	**8,997**	**26,915**
North and South America	**61,840**	**10,092**	**31,840**	**103,772**
	95,728	**12,816**	**100,531**	**209,075**

	2007			
	Banks and non-bank financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	42,051	1,355	32,515	75,921
— of which attributed to Hong Kong	12,706	899	17,102	30,707
Europe	57,474	—	10,064	67,538
North and South America	114,802	68,146	49,984	232,932
	214,327	69,501	92,563	376,391

The above cross-border claims are disclosed in accordance with the requirements of the Rules. According to these requirements, "others" includes the transactions with sovereign counterparties.

(d) Overdue loans and advances to customers by geographical sector

	2008	2007
Yangtze River Delta	**7,353**	7,996
Pearl River Delta	**7,604**	9,552
Bohai Rim	**15,063**	18,702
Central	**11,192**	11,710
Western	**10,495**	10,468
Northeastern	**5,390**	6,232
Head office	**1,569**	2,186
Overseas	**374**	177
Total	**59,040**	67,023

The above analysis represents the gross amount of loans and advances overdue for more than 90 days as required by the Rules.

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

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they are also considered as overdue.

As at 31 December 2008, the amounts of RMB48,922 million (2007: RMB56,981 million) and RMB10,118 million (2007: RMB10,042 million) of the above overdue loans and advances were subject to individual assessment and collective assessment for impairment respectively. The covered portion and uncovered portion of these individually assessed loans and advances were RMB8,863 million and RMB40,059 million respectively (2007: RMB13,058 million and RMB43,923 million respectively). The fair value of collateral held against these individually assessed loans and advances was RMB9,377 million (2007: RMB16,406 million). The fair value of collateral was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation. The impairment allowances made against these individually assessed loans and advances were RMB39,617 million (2007: RMB41,635 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

2008 witnessed a volatile international financial market and the global economic growth slowed down remarkably, as a result of the global financial crisis triggered by the US sub-prime mortgage crisis. As reported by the International Monetary Fund, the world economy grew by only 3.4% during the year, with 1.1% for the US and 1.0% for Europe, compared to 5.2% in 2007. Against this backdrop, the US and Europe administrations have rapidly intervened in the financial markets with massive capital injections, while major economies have jointly lowered their interest rates to stabilise the financial markets.

In 2008, China suffered severe natural disasters including snowstorms and Wenchuan earthquake, and experienced a slowdown in its economic growth due to the global economic and financial markets turmoil. To address the international and domestic economic changes, the Chinese government promptly adjusted its macroeconomic policies, implemented proactive fiscal policies and moderately loose monetary policies, and launched a series of measures to expand domestic demand. Thanks to these efforts, China sustained a steady and rapid economic growth on the whole though the growth rate was slightly lower than before, and its GDP increased by 9.0% to RMB30.10 trillion over the previous year.

In 2008, the Chinese government made timely adjustments to its monetary policies in line with the changes in the international and domestic macroeconomic conditions. In early 2008, the PBC adopted tight monetary policies to prevent fast economic growth from becoming overheated and prevent structural price increases from turning into significant inflation; in mid-2008, as a result of the deepening impacts of US sub-prime mortgage crisis, adjustments were made in Chinese macroeconomic policies, in order to maintain a sound and rapid economic development while containing inflation; prompted by the escalating global financial crisis and ebbing domestic inflationary pressures, the PBC implemented moderately loose monetary policies since September 2008 with various measures, including four cuts in the statutory deposit reserve rate, five cuts in benchmark lending rates, four cuts in benchmark deposit rates, and the cancellation of the restriction on the amount of lending made by financial institutions.

China's financial market performed in a sound manner on the whole in 2008. Money market transactions in RMB were active with a marked decrease in interest rates. Trading in the bond market was active while bond yield curve fell substantially as a whole as the primary market yield rose first and then declined. The stock market prices dropped sharply with fluctuations, while demand in the insurance market increased substantially. The foreign exchange market remained stable. The RMB appreciated by 6.9% cumulatively against the US dollar during 2008. It appreciated rapidly in the first half of the year while remained relatively stable in the second half. Money supply and credit grew steadily. At the end of 2008, the outstanding broad money M2 rose by 17.8% to RMB47.5 trillion, and the narrow money M1 rose by 9.1% to RMB16.6 trillion. Loans made in RMB rose by 18.8% to RMB30.3 trillion over the previous year.

The Group kept abreast of changes in the macroeconomic and financial situation, took active measures and continued to implement structural adjustment and business transformation, achieving outstanding operating results.

- Operating income was RMB269,747 million, an increase of 22.21% compared to 2007. Net interest income grew by 16.67% to RMB224,920 million and net fee and commission income rose by 22.78% to RMB38,446 million.

- Profit before tax reached RMB119,741 million, up 18.77% from 2007, while net profit was RMB92,642 million, an increase of 33.99%.

- Return on average assets was 1.31% and return on average equity was 20.68%, an increase of 0.16 and 1.18 percentage points respectively over the previous year.

- Basic and diluted earnings per share were RMB0.40, up RMB0.10 from the previous year.

- Total assets amounted to RMB7,555,452 million and total liabilities amounted to RMB7,087,890 million, an increase of 14.51% and 14.77% respectively over the previous year.

- Gross loans and advances to customers amounted to RMB3,793,943 million, an increase of 15.95% over the previous year. Loans extended to infrastructure industries increased by RMB194,106 million, accounting for 56.26% of the corporate loan increase.

- The non-performing loan (NPL) ratio was 2.21%, a decrease of 0.39 percentage points over the previous year. The NPLs decreased by RMB1,288 million year-on-year to RMB83,882 million. The ratio of allowances to NPLs was 131.58%, up 27.17 percentage points from 2007.

Income Statement Analysis

The increase in profit before tax was mainly attributable to continued fast growth in net interest income and net fee and commission income. As the PRC enterprise income tax rate dropped from 33% to 25% starting from 1 January 2008, the growth rate of net profit was higher than that of profit before tax.

Net Interest Income

In 2008, the Group's net interest income was RMB224,920 million, an increase of RMB32,145 million, or 16.67%, over the previous year.

The following table shows the Group's average balances of assets and liabilities, related interest income or expense, and average yields or costs during the respective periods.

	Year ended 31 December 2008			Year ended 31 December 2007		
	Average balance	**Interest income/ expense**	**Average yield/cost (%)**	Average balance	Interest income/ expense	Average yield/cost (%)
	(In millions of RMB, except percentages)					
Assets						
Gross loans and advances to customers	**3,520,537**	**251,943**	**7.16**	3,140,118	198,278	6.31
Investment in debt securities[1]	**2,193,646**	**79,877**	**3.64**	2,112,620	69,610	3.29
Deposits with central banks	**1,016,396**	**17,960**	**1.77**	650,496	11,272	1.73
Deposits and placements with banks and non-bank financial institutions	**77,759**	**1,971**	**2.53**	60,971	2,127	3.49
Financial assets held under resale agreements	**136,428**	**4,749**	**3.48**	100,689	3,536	3.51
Total interest-earning assets	**6,944,766**	**356,500**	**5.13**	6,064,894	284,823	4.70
Total allowances for impairment losses	**(112,408)**			(86,886)		
Non-interest-earning assets	**219,833**			186,750		
Total assets	**7,052,191**	**356,500**		6,164,758	284,823	
Liabilities						
Deposits from customers	**5,778,316**	**117,160**	**2.03**	5,003,903	78,180	1.56
Deposits and placements from banks and non-bank financial institutions	**606,592**	**11,124**	**1.83**	550,243	9,102	1.65
Financial assets sold under repurchase agreements	**18,468**	**571**	**3.09**	32,850	1,566	4.77
Debt securities issued	**51,332**	**2,426**	**4.73**	48,682	2,363	4.85
Other interest-bearing liabilities	**8,224**	**299**	**3.64**	14,186	837	5.90
Total interest-bearing liabilities	**6,462,932**	**131,580**	**2.03**	5,649,864	92,048	1.63
Non-interest-bearing liabilities	**146,025**			117,144		
Total liabilities	**6,608,957**	**131,580**		5,767,008	92,048	
Net interest income		**224,920**			192,775	
Net interest spread			**3.10**			3.07
Net interest margin			**3.24**			3.18

1. These include investments in trading debt securities and investment debt securities. Investment debt securities refer to debt securities in available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

Higher average yields on loans and advances to customers and investments in debt securities over the previous year were offset by the increased proportion of the average balance of low-yielding deposits with central banks in total interest-earning assets. This resulted in a rise of 43 basis points in the overall average yield on interest-earning assets over 2007 to 5.13%.

As a result of the higher average costs of deposits from customers and deposits and placements from banks and non-bank financial institutions, as well as the larger proportion of the average balance of deposits from customers in that of total interest-bearing liabilities, the overall average cost of interest-bearing liabilities rose by 40 basis points over the previous year to 2.03%.

As the increase in the average yield of interest-earning assets was higher than that of the average cost for interest-bearing liabilities, net interest spread rose by 3 basis points to 3.10% over 2007. Net interest income for the year increased by 16.67%, higher than the 14.51% growth of total interest-earning assets, pushing up the net interest margin by 6 basis points to 3.24%.

The following table shows the effects of the movement of the average balances and average interest rates of the Group's assets and liabilities on the change in interest income or expense for 2008 versus 2007.

	Volume factor[1]	**Interest rate factor**	**Change in interest income/ expense**
	(In millions of RMB)		
Assets			
Gross loans and advances to customers	27,224	26,441	53,665
Investment in debt securities	3,092	7,175	10,267
Deposits with central banks	6,466	222	6,688
Deposits and placements with banks and non-bank financial institutions	426	(582)	(156)
Financial assets held under resale agreements	1,244	(31)	1,213
Change in interest income	38,452	33,225	71,677
Liabilities			
Deposits from customers	15,702	23,278	38,980
deposits and placements from banks and non-bank financial institutions	1,033	989	2,022
Financial assets sold under repurchase agreements	(445)	(550)	(995)
Debt securities issued	91	(28)	63
Other interest-bearing liabilities	(244)	(294)	(538)
Change in interest expenses	16,137	23,395	39,532
Change in net interest income	22,315	9,830	32,145

1. Change caused by both average balances and average interest rates has been allocated to change in interest income or expense due to volume factor.

Net interest income increased by RMB32,145 million over the previous year, in which RMB22,315 million was due to the movement of average balances of assets and liabilities, and RMB9,830 million was due to the movement of average yields or costs. The contributions to the increase in net interest income from the volume factor and the interest rate factor were 69.42% and 30.58%, respectively.

Interest income

The Group's interest income in 2008 was RMB356,500 million, an increase of RMB71,677 million, or 25.17%, over 2007. This was largely attributable to the increase in average balances of loans and advances to customers and investments in debt securities as well as the increase of their respective average yields.

Interest income from loans and advances to customers

The table below shows the average balance, interest income and average yield of each component of the Group's loans and advances to customers.

	Year ended 31 December 2008			Year ended 31 December 2007		
	Average balance	**Interest income**	**Average yield (%)**	Average balance	Interest income	Average yield (%)
	(In millions of RMB, except percentages)					
Corporate loans	**2,515,553**	**184,797**	**7.35**	2,233,195	147,230	6.59
Short-term loans maturing within 1 year	**844,425**	**60,829**	**7.20**	804,809	51,995	6.46
Medium to long-term loans	**1,671,128**	**123,968**	**7.42**	1,428,386	95,235	6.67
Personal loans	**771,646**	**54,345**	**7.04**	673,726	40,793	6.05
Discounted bills	**118,954**	**7,586**	**6.38**	147,505	5,403	3.66
Overseas operations	**114,384**	**5,215**	**4.56**	85,692	4,852	5.66
Gross loans and advances to customers	**3,520,537**	**251,943**	**7.16**	3,140,118	198,278	6.31

Interest income from loans and advances to customers surged to RMB251,943 million, an increase of RMB53,665 million, or 27.07%, over the previous year, mostly as a result of the expansion of corporate and personal loan businesses and the increased average yields on domestic loans. Average yield on loans and advances to customers rose by 0.85 percentage points over 2007, largely because with the persisting effect of the PBC's six consecutive hikes in benchmark lending rates in 2007 and the Group's enhanced bargaining power, average yields on corporate loans, personal loans and bill discounting business climbed by 76, 99 and 272 basis points, respectively, over the previous year. Meanwhile, the average yield on short-term corporate loans maturing within one year rose by 74 basis points year-on-year to 7.20%, while average yield on medium to long-term corporate loans was 7.42%, 75 basis points higher than in 2007.

Interest income from investments in debt securities

Interest income from investments in debt securities was RMB79,877 million, up RMB10,267 million, or 14.75%, over 2007. Interest income from investment debt securities grew by 12.05% to RMB77,494 million; interest income from trading debt securities surged by 430% to RMB2,383 million. The expanded interest income from investments in debt securities was mainly due to the Group's timely adjustments to its asset structure at the appropriate market moment, which pushed up the yield on RMB-denominated investments in debt securities by 68 basis points to 3.84%. In order to mitigate risks associated with its foreign currency investment portfolio, the Group cut down on its holding of risky debt securities at appropriate time, leading to a sharp decline in the amount of foreign currency debt securities held.

Interest income from deposits with central banks

Interest income from deposits with central banks amounted to RMB17,960 million, a rise of RMB6,688 million, or 59.33%, over 2007. This was mainly because the average balance increased by 56.25% over the previous year, as the PBC lifted the statutory deposit reserve rate consecutively in the first half of 2008, which hit a record high of 17.50%. It dropped gradually to 15.50% since October, but remained one percentage point higher than in 2007.

Interest income from deposits and placements with banks and non-bank financial institutions

Interest income from deposits and placements with banks and non-bank financial institutions decreased by RMB156 million to RMB1,971 million over 2007. This was largely due to the continuing decrease of interest rates in the money market, which drove the average yield down by 96 basis points to 2.53%.

Interest income from financial assets held under resale agreements

Interest income from financial assets held under resale agreements rose by RMB1,213 million, or 34.30%, year-on-year to RMB4,749 million. This mainly resulted from the 35.49% increase in the average balance as the Group increased bonds and bills held under resale agreements to raise short-term fund utilisation efficiency.

Interest expense

In 2008, the Group's interest expense was RMB131,580 million, an increase of RMB39,532 million, or 42.95%, over 2007. This was primarily due to increases in average balances and costs of deposits from customers as well as deposits and placements from banks and non-bank financial institutions.

Interest expense on deposits from customers

The table below shows the average balance, interest expense and average cost of each component of the Group's deposits from customers.

	Year ended 31 December 2008			Year ended 31 December 2007		
	Average balance	**Interest expense**	**Average cost (%)**	Average balance	Interest expense	Average cost (%)
	(In millions of RMB, except percentages)					
Corporate deposits	**3,068,572**	**53,646**	**1.75**	2,670,009	37,681	1.41
Demand deposits	**2,073,951**	**20,207**	**0.97**	1,889,923	18,824	1.00
Time deposits	**994,621**	**33,439**	**3.36**	780,086	18,857	2.42
Personal deposits	**2,641,783**	**61,725**	**2.34**	2,276,334	38,327	1.68
Demand deposits	**1,029,051**	**6,451**	**0.63**	923,206	7,314	0.79
Time deposits	**1,612,732**	**55,274**	**3.43**	1,353,128	31,013	2.29
Overseas operations	**67,961**	**1,789**	**2.63**	57,560	2,172	3.77
Total deposits from customers	**5,778,316**	**117,160**	**2.03**	5,003,903	78,180	1.56

Interest expense on deposits from customers rose to RMB117,160 million, with an increase of RMB38,980 million, or 49.86%, over 2007, mainly as a result of the higher average balance and rising average cost of deposits. Due to the persisting effect of the PBC's six consecutive hikes in benchmark deposit rates in 2007, the average cost of deposits was 2.03%, 47 basis points higher than in the previous year. As the domestic capital market became more volatile and the interest spread between time and demand deposits widened, coupled with expectation of further rate cuts, the proportion of average balance of the domestic time deposits in total deposits from customers rose by 2.49 percentage points over 2007, pushing up the average cost of deposits from customers.

Interest expense on deposits and placements from banks and non-bank financial institutions

Interest expense on deposits and placements from banks and non-bank financial institutions reached RMB11,124 million, a rise of RMB2,022 million, or 22.21%, over 2007, largely because the average balance increased by 10.24% over 2007, and the average cost rose by 18 basis points to 1.83%, due to the rapid increase in time deposits from banks.

Interest expense on financial assets sold under repurchase agreements

Interest expense on financial assets sold under repurchase agreements decreased by RMB995 million year-on-year to RMB571 million. This was primarily because of drops in the average balance and cost. Average cost dropped by 168 basis points, as repos denominated in foreign currency, mostly US dollars, priced less substantially as a result of the falling London interbank offered rate.

Net Fee and Commission Income

	Year ended 31 December 2008	Year ended 31 December 2007
	(In millions of RMB)	
Fee and commission income	**40,056**	32,731
Agency service fees	**10,289**	16,439
Bank card fees	**7,153**	5,254
Consultancy and advisory fees	**6,998**	2,792
Settlement and clearing fees	**4,797**	3,261
Commission on trust and fiduciary activities	**4,759**	3,267
Guarantee and credit commitment fees	**3,102**	1,063
Others	**2,958**	655
Fee and commission expenses	**1,610**	1,418
Net fee and commission income	**38,446**	31,313

The Group continued to improve the incentive and disciplinary mechanism with an aim to spurring intermediary business development, and intensified its product innovation and market expansion efforts. Despite the volatile domestic capital market, the Group realised a net fee and commission income of RMB38,446 million, an increase of RMB7,133 million, or 22.78%, over 2007. The ratio of net fee and commission income to operating income rose by 0.06 percentage points over 2007 to 14.25%.

Agency service fees decreased by RMB6,150 million to RMB10,289 million over the previous year, largely because fees from fund agency service dropped sharply due to the slide of domestic capital market. The Group worked against the adverse impact brought by the market slump, followed the changes in market demand on a timely basis, and actively pushed forward businesses such as insurance agency, customer-driven foreign exchange trading, and settlement agency services by improving business process and incentive mechanism, strengthening sales capability and risk awareness of its staff, as well as leveraging its wide network of operations. Of these businesses, fees for insurance agency service surged by 193.57% to RMB2,830 million.

Bank card fees grew by RMB1,899 million, or 36.14%, to RMB7,153 million, largely due to the continued stable growth in the number of cards issued, consumer spending, and transactions through self-service facilities, following increased marketing efforts and invested resources.

Consultancy and advisory fees increased by RMB4,206 million, or 150.64%, to RMB6,998 million. In this amount, financial advisory fees surged by 143.94% to RMB4,869 million as a result of enhanced service standards and quality.

Settlement and clearing fees climbed by RMB1,536 million, or 47.10%, to RMB4,797 million. The Group seized market opportunities for international settlement business with innovated products and increased marketing, which generated fees of RMB2,006 million with an increase of 135.17%.

Commission on trust and fiduciary business rose by RMB1,492 million, or 45.67%, to RMB4,759 million. In this amount, fees from custodial service for securities investment funds climbed by 32.33% to RMB1,269 million, as a result of marketing targeted at premium customers and adjustments to the product mix.

Guarantee and credit commitment fees increased by RMB2,039 million, or 191.82%, to RMB3,102 million, mostly due to the rapid growth of commitment and guarantee services.

Others fees increased by RMB2,303 million, or 3.52 times, to RMB2,958 million, of which fees from customer-driven wealth management products increased by 245.33%, to RMB998 million.

Net Loss on Investment Securities

In 2008, net loss on investment securities was RMB2,252 million, largely because of the losses incurred on disposal of certain debt securities when the Group downsized its foreign currency investment portfolio and reduced the holding of high-risk debt securities to mitigate the associated credit risk amid the global financial turmoil.

Other Net Operating Income

In 2008, the Group recorded other net operating income of RMB5,270 million, in which there was a net foreign exchange gain of RMB2,642 million, a net gain of RMB99 million on disposals of fixed assets, a net gain of RMB197 million on disposals of repossessed assets, and other income of RMB2,332 million.

The specific composition of foreign exchange exposures as at 31 December 2008 and the respective gain for 2008 are set out below:

	As at 31 December 2008 Composition of foreign exchange exposures			Year ended 31 December 2008
	On balance sheet	**Off-balance sheet**	**Total**	**Foreign exchange gain**
	(In millions of RMB)			
Foreign currency assets and proprietary financial derivatives	114,048	(114,048)	—	1,967
Others	(341)	16,102	15,761	675
Net foreign exchange exposure	113,707	(97,946)	15,761	—
Net foreign exchange gain				2,642

1. Foreign exchange exposures are expressed in RMB. Positive and negative figures represent long and short positions respectively.

2. Financial derivatives represent currency derivatives.

3. The net foreign exchange exposures represent the position shown in "Currency Concentrations" of the unaudited supplementary financial information.

Foreign currency assets and proprietary financial derivatives

In order to minimise the risk associated with foreign exchange, the Group entered into relevant derivative financial instrument transactions. In 2008, the net gain and revaluation gain on foreign currency assets was RMB1,967 million, after taking into account the effect of the financial derivatives for hedging purposes. This was mainly because the net gain on cross-currency interest rate swap increased, as the RMB interest rates were generally higher than USD interest rates for the year; meanwhile, the revaluation gain of cross-currency interest rate swaps continued to increase as a result of favourable market movements. In addition, certain cross-currency interest rate swaps the Bank entered into were based on Euro versus RMB, and the accompanying foreign exchange swaps based on Euro versus US dollars were completed at a time when the interest rates of Euro were at a high level and those of US dollars were at a relatively low level, leading to a revaluation gain on proprietary foreign exchange swaps.

Other net exchange gains

The net gain from customer-driven forex trading and revaluation of net foreign exchange exposures of the Group was RMB675 million, in which the net gain from customer-driven forex trading reached RMB2,575 million, mainly because of the rapid development of customer-driven forward forex purchases and sales business and the increase in the net revaluation gain.

Operating Expenses

	Year ended 31 December 2008	Year ended 31 December 2007
	(In millions of RMB, except percentages)	
Staff costs	**46,657**	49,907
Premises and equipment expenses	**14,957**	13,217
Business tax and surcharge	**15,793**	12,337
Others	**21,786**	16,866
Total operating expenses	**99,193**	92,327
Cost-to-income ratio	**36.77%**	41.83%

In 2008, the total operating expenses increased by RMB6,866 million, or 7.44%, year-on-year to RMB99,193 million. The Group continued to strengthen cost controls, and the cost-to-income ratio was further reduced to 36.77% with improved cost efficiency.

Staff costs dropped by RMB3,250 million year-on-year to RMB46,657 million. Excluding the effect of an accrual of RMB8,998 million in 2007 for the benefits expected to be paid to early retired staff pursuant to relevant laws and regulations, staff costs went up by 14.05% to RMB5,748 million. The rise of cost was lower than that of operating income. Premises and equipment expenses rose by 13.16%, largely because of higher utility expenses, rents and property management fees accompanying overall price increases. Business tax and surcharges increased by 28.01% in line with higher operating income. Other operating expenses climbed by 29.17%, mainly because the Group strengthened marketing initiatives, which led to increased expenditure in business expansion and advertising.

Provisions for Impairment Losses

	Year ended 31 December 2008	Year ended 31 December 2007
	(In millions of RMB)	
Loans and advances to customers	**36,246**	20,106
Investments	**13,237**	7,075
Available-for-sale financial assets	**10,756**	2,113
Held-to-maturity investments	**3,126**	4,853
Debt securities classified as receivables	**(645)**	109
Fixed assets	**28**	34
Others	**1,318**	380
Total provisions for impairment losses	**50,829**	27,595

In 2008, the provisions for impairment losses totalled RMB50,829 million, an increase of RMB23,234 million over 2007. In this amount, the provisions for impairment losses on loans and advances to customers were RMB36,246 million; those on investments were RMB13,237 million; other provisions were RMB1,318 million, in which provisions for impairment losses on repossessed assets were RMB1,266 million.

Provisions for impairment losses on loans and advances to customers

	Year ended 31 December 2008			
	Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances which are collectively assessed	Allowances for impaired loans and advances which are individually assessed	Total
	(In millions of RMB)			
As at 1 January	**35,785**	**4,928**	**48,215**	**88,928**
Charge for the year	**18,337**	**1,404**	**25,128**	**44,869**
Release during the year	**—**	**—**	**(8,623)**	**(8,623)**
Unwinding of discount	**—**	**—**	**(1,564)**	**(1,564)**
Transfers out	**—**	**(20)**	**(6,825)**	**(6,845)**
Write-offs	**—**	**(623)**	**(5,956)**	**(6,579)**
Recoveries	**—**	**9**	**173**	**182**
As at 31 December	**54,122**	**5,698**	**50,548**	**110,368**

During 2008, the Group reasonably assessed the impacts of economic and financial changes at home and abroad as well as domestic natural disasters, and made prudent provisions for impairment losses, with an increase of RMB16,140 million in provisions for impairment losses on loans and advances over 2007. As at 31 December 2008, the balance of the allowances for impairment losses on loans and advances to customers increased by RMB21,440 million to RMB110,368 million over the previous year, while the ratio of allowances to non-performing loans was 131.58%, up 27.17 percentage points.

Provisions for impairment losses on investments

During 2008, provisions for impairment losses on investments increased by RMB6,162 million over the previous year. In this amount, the provisions for impairment losses on available-for-sale financial assets increased by RMB8,643 million over 2007, which was mainly because the Group provided US$1,557 million (equivalent to RMB10,622 million) for its debt securities investments in foreign currency based on certain indicators of impairment including their credit position and market factors; an amount of RMB645 million was released from the provisions for impairment losses on debt securities classified as receivables, as a bond which was issued by a non-bank financial institution acquired in prior years was fully recovered during the year.

Income Tax

In 2008, the Group's income tax reached RMB27,099 million, RMB4,575 million lower than in 2007, which was mainly because the income tax rate of the PRC enterprises decreased from 33% to 25% since 1 January 2008. If the effect of the tax cut is excluded, income tax would have increased by RMB4,097 million. The Group's effective income tax rate was 22.63%, lower than the 25% statutory rate, largely because the interest income from the PRC government bonds held by the Group was non-taxable in accordance with tax regulations.

Balance Sheet Analysis

Assets

The following table shows the composition of the Group's total assets as at the dates indicated.

	As at 31 December 2008		As at 31 December 2007	
	Amount	**% of total**	Amount	% of total
	(In millions of RMB, except percentages)			
Gross loans and advances to customers	**3,793,943**		3,272,157	
Allowances for impairment losses on loans	**(110,368)**		(88,928)	
Net loans and advances to customers	**3,683,575**	**48.75**	3,183,229	48.24
Investment securities[1]	**2,144,439**	**28.38**	2,171,991	32.92
Cash and deposits with central banks	**1,247,450**	**16.51**	843,724	12.79
Deposits and placements with banks and non-bank financial institutions	**49,932**	**0.66**	88,798	1.35
Financial assets held under resale agreements	**208,548**	**2.76**	137,245	2.08
Trading financial assets	**50,309**	**0.67**	29,819	0.45
Interest receivable	**38,317**	**0.51**	33,900	0.51
Other assets[2]	**132,882**	**1.76**	109,471	1.66
Total assets	**7,555,452**	**100.00**	6,598,177	100.00

1. These comprise available-for-sale financial assets, held-to-maturity investments, and debt securities classified as receivables.

2. These comprise precious metals, positive fair value of derivatives, investments in associate and jointly controlled entities, fixed assets, long-term lease prepayments, intangible assets, goodwill, deferred tax assets and other assets.

As at 31 December 2008, the Group's total assets amounted to RMB7,555,452 million, an increase of RMB957,275 million, or 14.51%, over 2007. Gross loans and advances to customers grew by RMB521,786 million, or 15.95% over the previous year, which was 2.08 percentage points higher than in 2007. This was mainly because in line with the macroeconomic policy of securing growth and boosting domestic demand, the Group increased loans to key customers and industries under effective risk control by capitalising on quality project reserves, and its large branch network and clientele. Investment securities decreased by RMB27,552 million, largely due to the reduction of debt securities investments in foreign currency. The statutory deposit reserve rate was one percentage point higher than at the end of 2007, and the PBC reduced the issuance of central bank bills to provide liquidity to the market, leading to the Group's higher surplus reserve. As a result, the Group's cash and balances with central banks increased by RMB403,726 million, or 47.85%, over the previous year, with their proportion in total assets up by 3.72 percentage points. The Group's deposits and placements with banks and non-bank financial institutions dropped by RMB38,866 million, largely because the Group contracted placements with overseas banks in response to the global financial crisis. Financial assets held under resale agreements surged by RMB71,303 million, primarily because the Group increased bonds and bills held under resale agreements in order to enhance fund utilisation efficiency. Thanks to the growth of customer-driven debt securities transactions for wealth management, the Group's trading financial assets rose by RMB20,490 million, or 68.71%.

Loans and advances to customers

	As at 31 December 2008		As at 31 December 2007	
	Amount	**% of total**	Amount	% of total
	(In millions of RMB, except percentages)			
Corporate loans	**2,689,784**	**70.90**	2,344,757	71.66
Short-term loans	**855,397**	**22.55**	820,908	25.09
Medium to long-term loans	**1,834,387**	**48.35**	1,523,849	46.57
Personal loans	**821,531**	**21.65**	723,805	22.12
Residential mortgage loans	**603,147**	**15.90**	527,888	16.13
Personal consumer loans	**74,964**	**1.98**	66,573	2.03
Other loans[1]	**143,420**	**3.77**	129,344	3.96
Discounted bills	**163,161**	**4.30**	102,826	3.14
Overseas operations	**119,467**	**3.15**	100,769	3.08
Gross loans and advances to customers	**3,793,943**	**100.00**	3,272,157	100.00

1. These comprise individual commercial property mortgage loans, personal business loans, home equity loans, credit card loans and education loans.

As at 31 December 2008, the Group's gross loans and advances to customers rose by RMB521,786 million, or 15.95% over 2007, to RMB3,793,943 million.

Corporate loans reached RMB2,689,784 million, an increase of RMB345,027 million, or 14.71%, over 2007. Corporate loans accounted for 70.90% of the total loans and advances to customers, 0.76

percentage points lower than at the end of the previous year. In this amount, infrastructure loans climbed by 19.52% to RMB1,188,487 million, with the new infrastructure loans accounting for 56.26% of the new corporate loans. This was mainly because the Group capitalised on its historical strength in infrastructure financing, and increased loans to major infrastructure projects to meet the strong demand for infrastructure loans triggered by the government policy of boosting domestic demand. The Group also reinforced credit structure adjustment and risk control, by studying general directions and development trends of various industries and adopting differentiated strategies (including promoting, controlling, curtailing, and exiting) based on different regions, customers and industries. By improving its credit entry and exit system and implementing stringent lending criteria and selecting the best possible customers, the balance of corporate loans under the "exit" category decreased by RMB64,459 million compared to the previous year. Furthermore, the Group improved its customer base, and the proportion of customers with internal credit ratings of A or above went up 0.73 percentage points to 89.34% compared to the previous year.

Personal loans increased by RMB97,726 million, or 13.50% over 2007, to RMB821,531 million, which accounted for 21.65% of the gross loans and advances to customers with a decrease of 0.47 percentage points. In this amount, the residential mortgage loans rose by RMB75,259 million, or 14.26%; personal consumer loans grew by RMB8,391 million, or 12.60%; other loans rose by RMB14,076 million, or 10.88%. Amid complicated market changes, the Group implemented differentiated development strategies for regions, products and customers to meet credit needs of premium personal customers, and took active measures to avoid systemic risk in regional markets.

Discounted bills increased by RMB60,335 million, or 58.68%, year-on-year to RMB163,161 million. This was chiefly because the Group expanded discounting business for bills with short maturities to meet customer needs.

Overseas loans and advances rose by RMB18,698 million, or 18.56% over 2007, to RMB119,467 million. The rapid growth of these loans was mainly because the Group continued to support its overseas branches in terms of resources, which in turn proactively increased their marketing efforts.

Distribution of loans by type of collateral

The table below sets forth the distribution of loans and advances by type of collateral as at the dates indicated.

	As at 31 December 2008		As at 31 December 2007	
	Amount	**% of total**	Amount	% of total
	(In millions of RMB, except percentages)			
Unsecured loans	**947,785**	**24.98**	744,682	22.76
Guaranteed loans	**795,135**	**20.96**	748,904	22.89
Loans secured by tangible assets other than monetary assets	**1,650,208**	**43.50**	1,453,056	44.41
Loans secured by monetary assets	**400,815**	**10.56**	325,515	9.94
Gross loans and advances to customers	**3,793,943**	**100.00**	3,272,157	100.00

Investments

The following table shows the composition of the Group's investments as at the dates indicated.

	As at 31 December 2008		As at 31 December 2007	
	Amount	**% of total**	Amount	% of total
	(In millions of RMB, except percentages)			
Trading financial assets	**50,309**	**2.29**	29,819	1.35
Available-for-sale financial assets	**550,838**	**25.10**	429,620	19.51
Held-to-maturity investments	**1,041,783**	**47.47**	1,191,035	54.10
Debt securities classified as receivables	**551,818**	**25.14**	551,336	25.04
Total investments	**2,194,748**	**100.00**	2,201,810	100.00

As at 31 December 2008, total investments decreased by RMB7,062 million to RMB2,194,748 million over 2007. Trading financial assets rose by RMB20,490 million, or 68.71%. Available-for-sale financial assets climbed by RMB121,218 million, in which available-for-sale debt securities investments increased by RMB140,328 million, mainly because the Group held more debt securities issued by the PBC, banks and non-bank financial institutions; available-for-sale equity investments dropped by RMB19,110 million, primarily because of a reduction in the fair value of the listed shares held through debt equity swaps (including those subject to selling restriction) in the volatile domestic capital market. Held-to-maturity investments decreased by RMB149,252 million, largely due to the disposal of debt securities investments in foreign currency. Debt securities classified as receivables increased slightly over the previous year.

Debt securities investments

The following table sets forth the composition of the Group's debt securities investments by currency as at the dates indicated.

	As at 31 December 2008		As at 31 December 2007	
	Amount	**% of total**	Amount	% of total
	(In millions of RMB, except percentages)			
Debt securities investments in RMB	**2,068,230**	**95.04**	1,886,565	87.14
Debt securities investments in foreign currency	**107,890**	**4.96**	278,450	12.86
Total debt securities investments	**2,176,120**	**100.00**	2,165,015	100.00

Debt securities investments in foreign currency

The Group attached great importance to credit risk control in debt securities investment management. It downsized its foreign currency debt securities investment portfolio and reduced holding of high-risk debt securities to minimise losses. As at 31 December 2008, the carrying amount of the foreign currency debt securities investment portfolio held by the Group was US$15,814 million (or RMB107,890 million), a decrease of US$22,309 million (or RMB170,560 million) over 2007. The allowances for impairment losses on such securities were US$2,732 million (or RMB18,639 million).

The following table shows the composition of the US sub-prime mortgage loan backed securities held by the Group at the end of 2008.

	Allowances for impairment losses	**Carrying amount**[1]
	(In million of US dollars)	
US sub-prime mortgage debts	275	162
First lien debt securities	195	153
Second lien debt securities	80	9
Related residential mortgage collateralised debt obligations (CDO)	455	—
Total	730	162

1. Carrying amount after deducting the allowances for impairment losses.

As at 31 December 2008, the carrying amount of US sub-prime mortgage loan backed securities held by the Group was US$162 million (or RMB1,105 million), accounting for 1.02% of the foreign currency debt securities investment portfolio. Based on the Bloomberg composite rating, the percentages of securities rated AAA and AA were 77.66% and 4.31% respectively. The allowances for impairment losses on such securities were US$730 million (or RMB4,978 million).

As at 31 December 2008, the carrying amount of the Alt-A bonds held by the Group was US$230 million (or RMB1,570 million), accounting for 1.45% of the foreign currency debt securities investment portfolio. The percentage of securities rated AAA based on the Bloomberg composite rating was 43.05%. The allowances for impairment losses on such securities were US$283 million (or RMB1,929 million).

The Group had prudently made provisions for impairment losses on the above debt securities investments based on their credit profile and market factors. As the above debt securities represent only a very small proportion of the Group's total assets, market fluctuations for such debt securities will not have significant effect on earnings.

The Group had fully provided for the debt securities related to Lehman Brothers Holdings Inc of US$190 million (or RMB1,299 million). The Group reduced its holding of these debt securities at appropriate market time, and is keeping a close eye on the development of relevant events to safeguard its legal rights.

As at 31 December 2008, the carrying amount of the securities related to Fannie Mae and Freddie Mac held by the Group was US$1,191 million (or RMB8,124 million). Principal repayments and interest due on these debt securities had been received.

Interest receivable

As at 31 December 2008, the Group's interest receivable was RMB38,317 million, an increase of RMB4,417 million, or 13.03%, over 2007. The allowances for impairment losses on interest receivable was RMB1 million, which was made in full against interest receivable arising from debt securities investments overdue for more than three years.

Liabilities

The following table shows the composition of the Group's total liabilities as at the dates indicated.

	As at 31 December 2008		As at 31 December 2007	
	Amount	**% of total**	Amount	% of total
	(In millions of RMB, except percentages)			
Deposits from customers	**6,375,915**	**89.96**	5,329,507	86.30
Deposits and placements from banks and non-bank financial institutions	**490,572**	**6.92**	547,487	8.86
Financial assets sold under repurchase agreements	**864**	**0.01**	109,541	1.77
Debt securities issued	**53,810**	**0.76**	49,212	0.80
Other liabilities[1]	**166,729**	**2.35**	140,149	2.27
Total liabilities	**7,087,890**	**100.00**	6,175,896	100.00

1. These comprise borrowings from central banks, trading financial liabilities, negative fair value of derivatives, accrued staff costs, taxes payable, interest payable, provisions, deferred tax liabilities and other liabilities.

As at 31 December 2008, the Group's total liabilities were RMB7,087,890 million, an increase of RMB911,994 million, or 14.77%, over 2007. Deposits from customers remained the Group's primary source of funding, and grew by RMB1,046,408 million, or 19.63%. Deposits from customers accounted for 89.96% of the total liabilities, up 3.66 percentage points over 2007. Deposits and placements from banks and non-bank financial institutions decreased by RMB56,915 million, with their proportion in total liabilities down 1.94 percentage points to 6.92%. This was mainly because the deposits from securities brokerages and funds dropped significantly with the volatile capital market. Financial assets sold under repurchase agreements decreased by RMB108,677 million, largely because the repos conducted with the PBC in 2007 matured and those conducted with other banks shrank with the Group's ample liquidity. Debt securities issued increased by RMB4,598 million, mainly because the Bank issued RMB-denominated financial bonds in September 2008 in Hong Kong and its Hong Kong branch increased issuance of certificates of deposit.

Deposits from customers

The following table sets forth the Group's deposits from customers by product type as at the dates indicated.

	As at 31 December 2008		As at 31 December 2007	
	Amount	**% of total**	Amount	% of total
	(In millions of RMB, except percentages)			
Corporate deposits	**3,337,046**	**52.33**	2,945,305	55.27
Demand deposits	**2,229,910**	**34.97**	2,084,193	39.11
Time deposits	**1,107,136**	**17.36**	861,112	16.16
Personal deposits	**2,967,747**	**46.55**	2,316,321	43.46
Demand deposits	**1,133,449**	**17.78**	997,164	18.71
Time deposits	**1,834,298**	**28.77**	1,319,157	24.75
Overseas operations	**71,122**	**1.12**	67,881	1.27
Total deposits from customers	**6,375,915**	**100.00**	5,329,507	100.00

As at 31 December 2008, the Group's deposits from customers reached RMB6,375,915 million, an increase of RMB1,046,408 million, or 19.63%, year-on-year, higher than the growth of total liabilities. Corporate deposits went up 13.30%, against the 28.12% increase of personal deposits. This led to a drop of 2.94 percentage points in the proportion of corporate deposits in total deposits from customers to 52.33%. This was largely because the volatile capital market and increasing uncertainties in the property market dampened the residents' investment sentiment and heightened their desire to save, and the Group took this chance to provide more diversified personal deposit products and strengthen its marketing efforts, leading to a substantial increase in personal deposits. Due to the PBC's consecutive interest rate cuts and heightened expectation of further rate cuts, domestic time deposits surged by 34.91%, much higher than the 9.15% growth of demand deposits. The proportion of domestic time deposits in total deposits went up 5.22 percentage points to 46.13%.

Shareholders' Equity

	As at 31 December 2008	As at 31 December 2007
	(In millions of RMB)	
Share capital	**233,689**	233,689
Capital reserve	**90,241**	90,241
Investment revaluation reserve	**11,156**	16,408
Surplus reserve	**26,922**	17,845
General reserve	**46,628**	31,548
Retained earnings	**59,593**	32,164
Exchange reserve	**(2,263)**	(918)
Equity attributable to shareholders of the Bank	**465,966**	420,977
Minority interests	**1,596**	1,304
Total equity	**467,562**	422,281

As at 31 December 2008, the Group's total equity reached RMB467,562 million, an increase of RMB45,281 million year-on-year. The ratio of total equity to total assets for the Group was 6.19%, a decrease of 0.21 percentage points compared to 2007.

Capital Adequacy Ratio

The following table sets forth the information related to the Group's capital adequacy ratio as at the dates indicated:

	As at 31 December 2008	As at 31 December 2007
	(In millions of RMB, except percentages)	
Core capital adequacy ratio	**10.17%**	10.37%
Capital adequacy ratio	**12.16%**	12.58%
Components of capital base		
Core capital:		
Share capital	**233,689**	233,689
Capital reserve, investment revaluation reserve and exchange reserve	**83,202**	85,408
Surplus reserve and general reserve	**73,550**	49,393
Retained earnings	**39,316**	16,609
Minority interests	**1,596**	1,304
	431,353	386,403
Supplementary capital:		
General provisions for doubtful debts	**38,110**	33,373
Positive changes in fair value of available-for-sale financial assets and trading financial instruments	**8,684**	10,527
Long-term subordinated bonds	**40,000**	40,000
	86,794	83,900
Total capital base before deductions	**518,147**	470,303
Deductions:		
Goodwill	**(1,527)**	(1,624)
Unconsolidated equity investments	**(5,682)**	(4,687)
Others	**(522)**	(810)
Total capital base after deductions	**510,416**	463,182
Risk weighted assets	**4,196,493**	3,683,123

1. Core capital adequacy ratio is calculated by dividing the net amount of core capital, which is after deductions of 100% of goodwill and 50% of unconsolidated equity investments and others, by risk-weighted assets.

2. Capital adequacy ratio is calculated by dividing the total capital base after deductions by risk-weighted assets.

3. The dividend proposed after the balance sheet date has been deducted from retained earnings.

4. The investment revaluation reserve arising from the accumulated net positive changes in the fair value of available-for-sale financial assets is excluded from the core capital and 50% of the balance is included in the supplementary capital. In addition, the unrealised accumulated net positive changes in fair value of trading financial instruments, net of income tax, are excluded from the core capital and included in the supplementary capital.

5. Others mainly represent investments in those asset backed securities specified by the CBRC which required reduction.

6. The balances of risk-weighted assets include an amount equal to 12.5 times the Group's market risk capital.

The Group calculates and discloses its capital adequacy ratio in accordance with the *Administration Measures for Capital Adequacy Ratios of Commercial Banks* and related regulations promulgated by the CBRC. As at 31 December 2008, the Group's capital adequacy ratio was 12.16% and the core capital adequacy ratio was 10.17%, down 0.42 and 0.20 percentage points respectively over 2007.

The decrease in capital adequacy ratio was because the growth rate of risk-weighted assets exceeded that of total capital base after deductions. Risk-weighted assets increased by RMB513,370 million or 13.94% compared to 2007, which was mainly because of the steady growth of on-balance sheet assets and rapid growth of off-balance sheet business. Total capital after deductions increased by RMB47,234 million, or 10.20%, of which core capital increased by RMB44,950 million over 2007.

The Bank issued subordinated bonds of RMB40 billion in the national interbank bond market on 26 February 2009. RMB12 billion of these bonds are 10-year fixed rate bonds with annual coupon rate of 3.20% for the first five years, and the Bank has an option to redeem the bonds at the end of the fifth year; if the Bank does not exercise the option, the annual interest rate for the following five years will be 6.20%. RMB28 billion of these bonds are 15-year fixed rate bonds with annual coupon rate of 4.00% for the first 10 years, and the Bank has an option to redeem the bonds at the end of the 10th year; if the Bank does not exercise the option, the annual interest rate for the following five years will be 7.00%. The Bank will use these subordinated bonds to strengthen its supplementary capital, raise its capital adequacy ratio, and enhance its business strength and risk mitigation capabilities.

Loan Quality Analysis

DISTRIBUTION OF LOANS BY THE FIVE-CATEGORY CLASSIFICATION

The following table sets forth, as at the dates indicated, the distribution of the Group's loans by the five-category loan classification under which NPLs include substandard, doubtful and loss categories.

	As at 31 December 2008		As at 31 December 2007	
	Amount	**% of total**	Amount	% of total
	(In millions of RMB, except percentages)			
Normal	**3,492,961**	**92.07**	2,959,553	90.45
Special mention	**217,100**	**5.72**	227,434	6.95
Substandard	**35,105**	**0.93**	25,718	0.79
Doubtful	**39,862**	**1.05**	48,159	1.47
Loss	**8,915**	**0.23**	11,293	0.34
Gross loans and advances to customers	**3,793,943**	**100.00**	3,272,157	100.00
Non-performing loans	**83,882**		85,170	
Non-performing loan ratio		**2.21**		2.60

In 2008, the Group stepped up credit structure adjustments, and improved its risk monitoring and early warning mechanism for credit business. It closely monitored large special-mention loans and NPLs, strengthened the mitigation of the associated risks, and used innovative methods to expedite NPL disposal. Credit asset quality continued to improve, and as at 31 December 2008, the Group's NPLs were RMB83,882 million, a decrease of RMB1,288 million from 2007, while the NPL ratio dropped by 0.39 percentage points to 2.21%. The proportions of doubtful and loss loans in NPLs continued to drop; special-mention loans dropped to 5.72%, 1.23 percentage points lower than in 2007.

DISTRIBUTION OF LOANS AND NPLS BY PRODUCT TYPE

The following table sets forth loans and NPLs by product type as at the dates indicated:

	As at 31 December 2008			As at 31 December 2007		
	Loans	**NPLs**	**NPL ratio (%)**	Loans	NPLs	NPL ratio (%)
	(In millions of RMB, except percentages)					
Corporate loans	**2,689,784**	**74,430**	**2.77**	2,344,757	76,877	3.28
Short-term loans	**855,397**	**37,700**	**4.41**	820,908	43,489	5.30
Medium to long-term loans	**1,834,387**	**36,730**	**2.00**	1,523,849	33,388	2.19
Personal loans	**821,531**	**8,840**	**1.08**	723,805	7,925	1.09
Residential mortgage loans	**603,147**	**4,931**	**0.82**	527,888	4,222	0.80
Personal consumer loans	**74,964**	**1,685**	**2.25**	66,573	1,966	2.95
Other loans[1]	**143,420**	**2,224**	**1.55**	129,344	1,737	1.34
Discounted bills	**163,161**	**—**	**—**	102,826	—	—
Overseas operations	**119,467**	**612**	**0.51**	100,769	368	0.37
Total	**3,793,943**	**83,882**	**2.21**	3,272,157	85,170	2.60

1. Include individual commercial property mortgage loans, personal business loans, home equity loans, credit card loans and education loans.

As at 31 December 2008, the NPL ratio for corporate loans fell 0.51 percentage points year-on-year to 2.77%, and that for personal loans was 1.08%, 0.01 percentage points lower than in 2007. The overseas operations developed soundly. The NPL ratio for overseas operations increased slightly due to the global financial crisis, but remained at a low level.

Distribution of Loans and NPLs by Industry

The following table sets forth the loans and NPLs by industry as at the dates indicated:

	As at 31 December 2008				As at 31 December 2007			
	Loans	**% of total**	**NPLs**	**NPL ratio (%)**	Loans	% of total	NPLs	NPL ratio (%)
	(In millions of RMB, except percentages)							
Corporate loans	**2,689,784**	**70.90**	**74,430**	**2.77**	2,344,757	71.66	76,877	3.28
Manufacturing	**663,350**	**17.48**	**23,793**	**3.59**	592,502	18.11	24,834	4.19
Production and supply of electric power, gas and water	**452,472**	**11.93**	**6,672**	**1.47**	377,285	11.53	5,957	1.58
Transportation, storage and postal services	**426,803**	**11.25**	**5,359**	**1.26**	370,732	11.33	5,978	1.61
Real estate	**329,381**	**8.68**	**15,387**	**4.67**	317,780	9.71	15,372	4.84
Leasing and commercial services	**135,746**	**3.58**	**3,429**	**2.53**	92,968	2.84	2,911	3.13
— Commercial services	**135,105**	**3.56**	**3,264**	**2.42**	91,951	2.81	2,546	2.77
Water, environment and public utilities management	**132,426**	**3.49**	**2,159**	**1.63**	106,693	3.26	1,258	1.18
Construction	**116,551**	**3.07**	**2,375**	**2.04**	101,467	3.10	2,582	2.54
Wholesale and retail trade	**102,590**	**2.70**	**7,704**	**7.51**	89,289	2.73	7,816	8.75
Mining	**90,499**	**2.39**	**479**	**0.53**	69,666	2.13	636	0.91
— Exploitation of petroleum and natural gas	**18,083**	**0.48**	**16**	**0.09**	14,948	0.46	40	0.27
Education	**78,870**	**2.08**	**1,179**	**1.49**	78,153	2.39	1,430	1.83
Telecommunications, computer services and software	**25,943**	**0.68**	**715**	**2.76**	35,846	1.10	1,159	3.23
— Telecommunications and other information transmission services	**23,598**	**0.62**	**328**	**1.39**	32,772	1.00	304	0.93
Others	**135,153**	**3.57**	**5,179**	**3.83**	112,376	3.43	6,944	6.18
Personal loans	**821,531**	**21.65**	**8,840**	**1.08**	723,805	22.12	7,925	1.09
Discounted bills	**163,161**	**4.30**	**—**	**—**	102,826	3.14	—	—
Overseas operations	**119,467**	**3.15**	**612**	**0.51**	100,769	3.08	368	0.37
Total	**3,793,943**	**100.00**	**83,882**	**2.21**	3,272,157	100.00	85,170	2.60

In 2008, the Group continued to improve its industry-specific lending and exit criteria, and the NPLs and NPL ratios for the wholesale and retail trade as well as manufacturing industries, which used to have higher NPL ratios, continued to decline. Compared with 2007, the NPLs for the wholesale and retail trade decreased by RMB112 million and those for manufacturing industries decreased by RMB1,041 million, with their NPL ratios down by 1.24 and 0.60 percentage points respectively. Primarily as a result of the earthquake disasters, the NPLs for industries such as water, environment and public utilities management rose slightly.

Business Review

The Group's major business segments are corporate banking, personal banking, treasury business, as well as others and unallocated items which include equity investments and overseas operations.

The following table sets forth, in the periods indicated, the profit before tax of each major business segment:

	For the year ended 31 December 2008		For the year ended 31 December 2007	
	Amount	**% of total**	Amount	% of total
	(In millions of RMB, except percentages)			
Corporate banking	**67,368**	**56.26**	61,391	60.89
Personal banking	**20,249**	**16.91**	26,146	25.93
Treasury business	**31,510**	**26.32**	13,347	13.24
Others and unallocated	**614**	**0.51**	(68)	(0.06)
Profit before tax	**119,741**	**100.00**	100,816	100.00

Corporate Banking

The following table sets forth the major operating information and changes related to corporate banking:

	For the year ended 31 December 2008	For the year ended 31 December 2007	Change
	(In millions of RMB, except percentages)		*(%)*
Net interest income	**126,010**	109,412	15.17
Net fee and commission income	**15,350**	7,471	105.46
Other net operating income	**716**	178	302.25
Operating income	**142,076**	117,061	21.37
Operating expenses	**(42,824)**	(37,787)	13.33
Provisions for impairment losses	**(31,884)**	(17,883)	78.29
Profit before tax	**67,368**	61,391	9.74
	As at 31 December 2008	As at 31 December 2007	
Segment assets	**3,214,610**	2,748,782	16.95

In 2008, the profit before tax gained a 9.74% increase over the previous year to RMB67,368 million, accounting for 56.26% of the Group's profit before tax as the Group's primary profit source. Net interest income from corporate banking increased by 15.17% over the previous year as a result of the rising net interest margin as well as loan growth. Net fee and commission income rose by 105.46% to RMB15,350 million, benefiting from the rapid growth of intermediary business products such as insurance agency, engineering cost advisory and asset custodial services. The provisions for impairment losses reached RMB31,884 million as affected by the financial crisis and the slowdown of economic growth.

The Bank actively pushed forward the adjustment of its loan structure. At the end of 2008, its corporate loans totalled RMB2,689,784 million, an increase of RMB345,027 million or 14.71% compared to the end of 2007. The asset quality of the corporate loans remained sound, and the corporate NPLs totalled RMB74,430 million with a NPL ratio of 2.77%, a decrease of RMB2,447 million or 0.51 percentage points compared to the end of 2007.

Infrastructure loans grew by 19.52% year-on-year to RMB1,188,487 million, with its increase amount accounting for 56.26% of the increase in corporate loans. The low-risk discounted bills increased by RMB60,335 million over 2007. Loans focused on high-rated customers as 89.34% of customer loans were extended to customers with internal credit ratings of A or above, 0.73 percentage points higher than in 2007. The Bank took initiatives to reduce its exposure to certain customers in industries that were not in line with the government's industrial policies and the Bank's risk preferences. With a total retreat amount of RMB64,459 million, the Bank effectively curtailed lending to industries with high pollution, high energy consumption and excess supply, and steadily improved its asset quality.

In order to promote the specialised operation of its small enterprise business, the Bank built 78 small enterprise banking centres based on the "Credit Factory" model. The Bank proactively pushed forward its supply-chain finance products, continued to improve the small enterprise rating related policies, and strengthened risk control and market research. Lending business to small enterprises made rapid progress, and the new loans were mostly extended to the key areas in the Yangtze River Delta, the Pearl River Delta, and the Bohai Rim.

The contribution from intermediary business improved substantially. Compared with 2007, the Bank's net fee and commission income from corporate banking rose by 105.46% to RMB15,350 million, accounting for 39.93% of the total net fee and commission income for the Group, with an increase of 16.07 percentage points. Income from three traditional products including corporate RMB settlement, domestic guarantees and engineering cost advisory services totalled RMB4,073 million. As the only domestic commercial bank qualified to provide engineering cost advisory services, the Bank heavily marketed the business and related income increased by 149.50% to RMB1,734 million. Income from syndicated loans and domestic factoring achieved over six-fold growth.

- *The institutional business experienced notable expansion.* The Bank had entered into civil card service agreements with nearly 8,000 public service institutions operating on the central budget by the end of 2008, and the civil cards issued increased by 497,900. An all-in-one social security card product was also launched, which incorporated financial services functions into the social security card. The Bank continued to enjoy the prime market position in terms of loan fund settlement agency service for China Development Bank. Our insurance agency service achieved fast growth, and its income rose to RMB2,830 million, with a growth rate of 193.57% that outperformed our domestic competitors. With 17.64 million users of independent custodial services for securities settlement funds and fee income of RMB468 million, the Bank ranked first in the market. Fee income from the "Safe Deal" custodial service for trading funds increased by RMB444 million. The Bank performed well in futures settlement business and was named the "Best Settlement Bank for Futures Business" by the *Securities Times* in 2008.

- *The international business achieved an outstanding performance.* In 2008, international settlement volume increased by 57.03% over 2007 to US$448,150 million, while the income thereof rose by 139.74% to RMB1,951 million. By successfully launching new products such as "Bank Acceptance Issuance Against Export Receivables", "Availisation of Bill", "Financing Without Recourse Under Short-term Export Credit Insurance", "Purchase-Order Financing", the Bank continued to innovate the process of trade finance. The Bank was named "Best Trade Finance Bank in China" by *Global Finance* in 2008 because of its strength and excellence shown in the trade finance and foreign exchange business. The Bank also won the bid to act as the domestic Hong Kong dollar settlement bank under the China foreign exchange payment system hosted by the PBC as well as the US dollar settlement bank under the China Foreign Exchange Trade System.

• *The asset custodial service made progress in a volatile market.* At the end of 2008, the total net value of funds under custody reached a record RMB453,234 million, with its share in domestic market rising to 24.02%. The Bank was approved to offer custodial service to 41 new funds and has started custodial service to 32 new funds, both ranking first among its competitors. The Bank also made remarkable progress in custodial services for other types of securities assets, Qualified Foreign Institutional Investor (QFII), Qualified Domestic Institutional Investor (QDII), enterprise annuities as well as industrial investments. The income from custodial business in 2008 rose by 38.37% to RMB1,418 million. The Bank was named "Best Subcustodian in China" by *The Asset* in 2008.

In 2009, the Bank will stand up to challenges for corporate banking business, and grasp every development opportunity to fully leverage our established strengths in the infrastructure industries. It will thoroughly examine the development directions and trends for various trades, continue to adjust its credit structure, and reinforce fundamental management and personnel development. In addition, the Bank will try to seek opportunities to further develop its business while laying a solid foundation for its sustainable development.

Personal Banking

The following table sets forth the major operating information and changes related to personal banking:

	For the year ended 31 December 2008	For the year ended 31 December 2007	Change
	(In millions of RMB, except percentages)		*(%)*
Net interest income	**58,417**	52,958	10.31
Net fee and commission income	**15,286**	20,344	(24.86)
Other net operating income	**870**	139	525.90
Operating income	**74,573**	73,441	1.54
Operating expenses	**(49,742)**	(44,799)	11.03
Provisions for impairment losses	**(4,582)**	(2,496)	83.57
Profit before tax	**20,249**	26,146	(22.55)
	As at 31 December 2008	As at 31 December 2007	
Segment assets	**863,351**	786,851	9.72

In 2008, as a result of the gloomy capital market and natural disasters in China, the net fee and commission income from personal banking declined, and provisions for impairment losses increased, leading to a 22.55% decrease in profit before tax from personal banking. Nevertheless, personal deposits and loans continued to grow steadily, and intermediary business products such as insurance agency service and bank cards still maintained healthy growth.

Personal deposits achieved record growth. Thanks to the vigorous marketing campaigns at opportune market moment and increased cross-selling to wealth management customers, as at 31 December 2008, the domestic personal deposits reached a record high of RMB2,967,747 million, an increase of RMB651,426 million, or 28.12% over 2007. Time deposits rose rapidly, the increase of which accounting for 79.08% of the increase in domestic personal deposits. The number of high-end customers with financial assets over RMB3 million increased by 93% over the previous year.

Personal loans rose steadily. As at 31 December 2008, the Bank's personal loans rose by 13.50% to RMB821,531 million, accounting for 21.65% of gross loans and advances to customers. Of these, personal residential mortgages rose by 14.26% to RMB603,147 million, commanding the largest market share in terms of both the loan balance and increase amount; personal consumer loans grew by 12.60% to RMB74,964 million. The Bank actively responded to the complex market changes by deepening structural adjustments and strengthening risk controls. It pushed forward the standardisation of personal loan centres by rolling out the process optimisation of such centres, with an aim to upgrading its service level. The Bank provided strong support to its customers in meeting their housing demand with professional, efficient and high-quality services, and maintained a good momentum in the residential mortgage loan business.

The Bank actively expanded its products for personal intermediary business. In 2008, net fee and commission income from personal banking stood at RMB15,286 million, a decrease of RMB5,058 million as a result of the declining amount of agency fund sales amid capital market fluctuations, but still accounted for 39.76% of the total net fee and commission income for the Group. Debit card and securities agency business remained the two largest income contributors. Personal wealth management, insurance agency, and personal gold businesses have become new sources of revenue growth for the personal intermediary business. During the year, the Bank sold personal wealth management products with a total amount of RMB383.8 billion, a 5.17 times increase over 2007. The income from personal insurance agency business also achieved extraordinary growth.

- *Bank cards business progressed in both scale and profitability.* In 2008, the Bank issued 6.10 million new credit cards, bringing the total number of credit cards in issue to 18.71 million credit cards. The amount spent through these cards totalled RMB157,911 million, and credit card loans reached RMB22,924 million with sound asset quality. The total number of debit cards issued amounted to 271 million, an increase of 47.57 million over 2007. During the year, spending via debit cards reached RMB446,105 million, 9.50% higher than 2007, while net fee and commission income from debit card business grew by 27.91% to RMB4,762 million. The Bank's credit card business was awarded the "Outstanding Contribution to Risk Prevention" award for 2008 by China Unionpay, and "Best Product Design Award" and "Best Marketing Award" for 2008 from MasterCard International.

- *The Bank's entrusted housing finance business continued to dominate the market.* By the end of 2008, the balance of housing fund deposits totalled RMB373,681 million, an increase of RMB83,819 million over 2007, with a market share of 61.72%; while the balance of provident fund loans amounted to RMB288,967 million, an increase of RMB46,717 million over 2007, with a market share of 49.05%. Through closer cooperation with local provident housing fund management centres, the Bank rolled out new product mixes of provident fund loans and residential mortgage loans, and provided greater financial support to middle and lower income groups. The Bank also enhanced its market competitiveness effectively and built its image as a professional mortgage financial service provider by expanding a series of new services such as co-branded Provident Housing Funds Long Card, entrusted withdrawal of provident housing funds and repayment of loans therewith as well as provident housing funds electronic services.

The Bank officially launched its private banking service. In 2008, the Bank set up three private banking centres in Beijing, Shanghai, and Guangdong to provide tailored modern private banking services with focus on asset management to its high-net-worth individual customers with financial assets over RMB10 million. The launch of the private banking service helped to enrich and improve the Bank's products and services for high-end customers, and facilitated the strategic transformation of the Bank by building a specialised, differentiated service system.

Notwithstanding many uncertainties in the personal banking environment in 2009, the Bank will take the opportunity of government policies to boost domestic demand and stimulate household spending, try to strike a balance between business development and risk control based on better understanding of the market features and development trends, and ensure the sound development of personal banking by stepping up product marketing activities, and enhancing service quality.

Treasury Business

The following table sets forth the major operating information and changes related to treasury business:

	For the year ended 31 December 2008	For the year ended 31 December 2007	Change
	(In millions of RMB, except percentages)		*(%)*
Net interest income	**40,628**	29,577	37.36
Net fee and commission income	**7,085**	2,750	157.64
Net trading gain	**1,489**	345	331.59
Net (loss)/income arising from investment securities	**(4,166)**	318	(1,410.06)
Other net operating income/(loss)	**2,330**	(7,873)	(129.59)
Operating income	**47,366**	25,117	88.58
Operating expenses	**(2,857)**	(5,015)	(43.03)
Provisions for impairment losses	**(12,999)**	(6,755)	92.44
Profit before tax	**31,510**	13,347	136.08
	As at 31 December 2008	As at 31 December 2007	
Segment assets	**3,358,278**	2,960,545	13.43

In 2008, despite rising provisions for impairment losses and net losses arising from investment securities due to the global financial crisis, the profit before tax of treasury business gained an increase of 136.08% to RMB31,510 million, accounting for 26.32% of the Group's profit before tax compared to 13.24% in the previous year. This was attributable to the rise of net interest income led by the growth of both size and yield rate of debt securities investments, the rise of net fee and commission income led by the growth of customer-driven foreign exchange transactions and financial consultancy service, and the significant decrease in foreign exchange losses.

Financial market business

In 2008, after examining carefully the complex and changing macroeconomic conditions and market movements at home and abroad, the Bank adjusted its investment portfolio management strategies. In the deployment of RMB funds, it stepped up quantitative research, refined the management of resource allocation, seized the chance of changes of market liquidity and yield curves to adjust portfolio structure in accordance with the changes in macroeconomic policies and liquidity profile, and conducted position trading of bonds with strengthened investment management capability. As for the foreign-currency denominated investment portfolios, in the face of the global financial turmoil caused by the sub-prime mortgage crisis, the Bank gave top priority to controls over credit risks by downsizing these portfolios and reducing high-risk bonds to minimise losses.

In 2008, the Bank fully utilised money market instruments to square positions and increase returns on short-term funds. During the year, its money market trading volume increased significantly and repurchase transaction volume amounted to RMB5,372.5 billion, an increase of 5.82% over 2007, ranking second in the market. Interbank lending was RMB1,606.3 billion, an increase of 41.30% over the previous year.

The Bank continued to expand the market share of its customer-driven foreign exchange transactions. The volume of customer-driven foreign exchange purchases and sales and foreign exchange trading reached US$261.5 billion, a year-on-year increase of 31%, generating income of RMB3,163 million, with a growth of 40%. The Bank commanded a 10.90% share of the spot foreign exchange purchases and sales market, 0.3 percentage points higher than in 2007. The volume of its customer-driven derivative transactions totalled US$12,136 million, an increase of 9.02% over 2007. We closely followed changes in market and customer demand by continuing to offer a greater variety of wealth management products such as the "CCB Fortune — Donations", while designing and issuing 338 batches of RMB and foreign currency denominated wealth management products, with an issuance amount of RMB329,440 million, an increase of 3.63 times over the previous year.

Investment banking

In 2008, investment banking made an income of RMB6,610 million, an increase of RMB4,120 million, or 165%, over 2007. Contributors to this income included bond underwriting (RMB230 million), financial advisory service (RMB4,870 million) and wealth management (RMB1,420 million). With these diversified products and services, the Bank met the different financial needs of its customers effectively. During the year, the investment banking segment helped its customers raise RMB247.1 billion.

The Bank increased bond underwriting amounts by targeting premium customers with large issuance projects and high external ratings. We ranked first among domestic market players for the third consecutive year in terms of accumulated underwriting volume of short-term commercial papers. The Bank launched tailor-made comprehensive financial advisory solutions to meet its customers' needs, and its "Package Solutions" financial advisory product was well received by its customers. The Bank designed and issued 910 batches of wealth management products such as "Profit from Interest", "Qiantu Financial Products" and "CCB Fortune" for an aggregate issuance amount of RMB428.9 billion, a rise of RMB363.6 billion, or 557%, over 2007.

In 2008, the Bank launched the "Jianyuan 2008-1" restructured asset securitisation project as a sponsor, and successfully issued the securities in the national interbank market. This is the first time for the Bank to dispose of non-performing assets in bulk by means of securitisation, and the first successful exploration for Chinese commercial banks in NPLs securitisation. The total issuance amounted to RMB2,765 million, of which senior tranche was RMB2,150 million and equity tranche was RMB615 million. All tranches were issued in the interbank market. Through this project, the Bank rapidly disposed of its corporate non-performing loans of RMB8,452 million on a one off basis with a total net issuance proceeds of RMB2,736 million.

Overseas Business and Subsidiaries

Overseas Business

The Bank has branches in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo and Seoul and representative offices in London, New York and Sydney.

In 2008, the Bank made major breakthroughs in expansion of its overseas branches. In December 2008, the US Federal Reserve officially approved the Bank's application for establishing a branch in New York and the Financial Services Authority of the UK also approved the Bank's application for establishing a subsidiary bank in London. The CBRC has given official approval for the Bank's application to upgrade its Sydney representative office to Sydney branch, while application and preparatory work related to establishing a bank in Ho Chi Minh City, Vietnam has been carried out smoothly.

In 2008, pursuant to requirements of the Bank's overseas development strategy, the overseas branches strove to improve their asset and income structure by actively pushing forward business transformation, and expanding intermediary businesses such as international settlement, foreign exchange clearing, and investment banking. With deepened cooperation between the domestic and overseas branches, a win-win result was achieved for business development both at home and abroad.

At the end of 2008, the total overseas assets amounted to RMB121,593 million, and the profit before tax was RMB2,333 million, of which the profit before tax from the overseas branches totalled RMB167 million. As a result of the impact of the global financial market turbulence, the non-performing loan ratio increased by 0.14 percentage points over the previous year, but remained at a low 0.51%.

Major subsidiaries

CCB Asia

CCB Asia is a licensed bank registered in Hong Kong mainly engaged in providing a wide range of personal and commercial banking services to customers. In 2008, CCB Asia strengthened network expansion, and accelerated development of its electronic channels. The number of retail outlets of CCB Asia in Hong Kong and Macau increased to 36, and CCB Asia developed 14 new electronic channel services and 18 new products which include "Golden Years Banking", "Gold Trading", and "RMB Checking Account". CCB Asia did not make any bond investments in the troubled financial institutions and its asset quality remained stable. As at 31 December 2008, CCB Asia's total assets were HK$53,715 million; the profit before tax for 2008 was HK$359 million with a net profit of HK$305 million.

CCB International

CCB International, a wholly-owned subsidiary of the Bank, is a Hong Kong-based investment bank with global presence. Despite challenging global capital markets and frozen IPO markets, CCB International posted the best results since its founding by interacting with the Bank's head office and domestic branches, as well as getting actively involved in innovative businesses such as repurchasing and increasing shares of listed companies, listing by way of purchasing shell companies, merger and acquisition, asset management, and industrial funds. In 2008, it achieved a profit before tax of HK$1,042 million. Key projects completed during the year included sponsoring the listing of Shanshui Cement in Hong Kong, helping key domestic enterprises such as China National Nuclear Corporation and China Cinda Asset Management Corporation to buy local shell companies. CCB International was named "Best Domestic Investment Bank in Hong Kong" by *The Asset* for 2008.

Sino-German Bausparkasse

Sino-German Bausparkasse was jointly established by the Bank and Bausparkasse Schwaebisch Hall in February 2004 with a registered capital of RMB150 million, of which 75.1% was contributed by the Bank. In order to expand Sino-German Bausparkasse's scope of business and enhance its capital strength, the two parties increased Sino-German Bausparkasse's registered capital to RMB1,000 million from RMB150 million in proportion to their respective existing shareholding during 2008, of which the Bank financed a total of RMB751 million. On 21 July 2008, Sino-German Bausparkasse received approval for the expansion of its business scope, which included taking public deposits, extending residential mortgage loans, extending development loans in support of development and construction of economic houses, low-rent houses, economic rent houses and price-limited houses, issuing financial bonds, and acting as an agent in the issuance, redemption and underwriting of government bonds, money collection and payment, agency fund sales, and insurance agency business, as well as the original housing savings deposit business. This enabled Sino-German Bausparkasse to change from a bank solely for housing savings business to a professional housing finance commercial bank.

CCB Principal Asset Management

CCB Principal Asset Management was founded by the Bank, Principal Financial Services, Inc and China Huadian Group Corporation in September 2005. The Bank contributed 65% and the other two parties contributed 25% and 10% respectively to the joint venture's registered capital of RMB200 million.

By the end of 2008, the assets under management of CCB Principal Asset Management totalled RMB42.6 billion, of which public fund assets totalled RMB37.8 billion and special accounts assets totalled RMB4.8 billion. CCB Principal Asset Management managed seven public funds and 12 special accounts. In 2008, despite the gloomy capital market, it still launched three funds, namely Great Momentum, Stable Growth, and Core Selection, and the fund assets increased by 19% over the previous year, ranking 20th compared to 31st in the previous year among 60 fund companies in this industry. Overall fund performance remained sound and in 2008, CCB Principal Asset Management achieved operating income of RMB274.50 million, with a profit before tax of RMB61.88 million. Its money market fund was awarded "Golden Bull award in open-ended money market" for two consecutive years.

CCB Financial Leasing

CCB Financial Leasing was established jointly by the Bank and Bank of America in December 2007 with a registered capital of RMB4,500 million, of which 75.1% was contributed by the Bank. CCB Financial Leasing is currently the largest domestic financial leasing company in terms of registered capital and one of the first innovative PRC financial leasing companies approved by the CBRC. It is mainly engaged in financial leasing, receiving security deposit from lessees, transferring rent receivables to commercial banks, issuing financial bonds, interbank lending, borrowing from financial institutions, and borrowing foreign exchange overseas.

In 2008, CCB Financial Leasing vigorously expanded its market, accelerated product innovation, and strengthened internal risk control management. At the end of 2008, its total assets were RMB4.89 billion, of which leasing assets were RMB3.6 billion. CCB Financial Leasing had excellent asset quality and its profit before tax was RMB141 million, outperforming its peers in profitability.

Analysed by Geographical Locations

In 2008, the Bank thoroughly implemented the strategy of prioritising the development of branches in central cities and was committed to expanding the market of cities in the Yangtze River Delta, the Pearl River Delta and the Bohai Rim, while taking into account the development of big and medium-sized cities in coastal and inland areas of China. The profit before tax in the Yangtze River Delta, the Pearl River Delta and the Bohai Rim increased by 14.11% to RMB65,959 million, accounting for 55.08% of the Group's profit before tax. Loans and advances to customers increased by 14.07% to RMB2,158,741 million, accounting for 56.89% of the total loans and advances to customers; deposits from customers increased by 17.89% to RMB3,514,296 million, accounting for 55.11% of the total deposits of the Group.

The following table sets forth the distribution of the Group's profit before tax by geographical segment:

	For the year ended 31 December 2008		For the year ended 31 December 2007	
	Amount	**% of total**	Amount	% of total
	(In millions of RMB, except percentages)			
Yangtze River Delta	**29,518**	**24.64**	25,934	25.73
Bohai Rim	**18,580**	**15.52**	16,920	16.78
Central	**15,782**	**13.18**	15,459	15.33
Western	**11,838**	**9.89**	15,347	15.22
Pearl River Delta	**17,861**	**14.92**	14,947	14.83
Northeastern	**5,434**	**4.54**	5,140	5.10
Head office	**18,395**	**15.36**	4,570	4.53
Overseas	**2,333**	**1.95**	2,499	2.48
Profit before tax	**119,741**	**100.00**	100,816	100.00

The following table sets forth the distribution of the Group's loans and advances by geographical segment:

	For the year ended 31 December 2008		For the year ended 31 December 2007	
	Amount	**% of total**	Amount	% of total
	(In millions of RMB, except percentages)			
Yangtze River Delta	**922,104**	**24.30**	816,085	24.95
Bohai Rim	**691,638**	**18.23**	602,943	18.43
Central	**607,335**	**16.01**	519,388	15.87
Western	**635,905**	**16.76**	530,805	16.22
Pearl River Delta	**544,999**	**14.36**	473,478	14.47
Northeastern	**233,468**	**6.15**	199,106	6.08
Head office	**39,027**	**1.03**	29,583	0.90
Overseas	**119,467**	**3.16**	100,769	3.08
Gross loans and advances to customers	**3,793,943**	**100.00**	3,272,157	100.00

The following table sets forth the distribution of the Group's deposits by geographical segment:

	For the year ended 31 December 2008		For the year ended 31 December 2007	
	Amount	**% of total**	Amount	% of total
	(In millions of RMB, except percentages)			
Yangtze River Delta	**1,330,657**	**20.86**	1,106,728	20.77
Bohai Rim	**1,208,697**	**18.96**	1,053,579	19.77
Central	**1,101,653**	**17.28**	913,466	17.14
Western	**1,101,507**	**17.28**	871,416	16.35
Pearl River Delta	**974,942**	**15.29**	820,711	15.40
Northeastern	**483,733**	**7.59**	405,490	7.61
Head office	**103,604**	**1.62**	90,236	1.69
Overseas	**71,122**	**1.12**	67,881	1.27
Deposits from customers	**6,375,915**	**100.00**	5,329,507	100.00

The following table sets forth the geographical distribution of the Group's assets, branches and staff:

	As at 31 December 2008					
	Assets *(In millions of RMB)*	% of total	Number of branches	% of total	Number of staff	% of total
Yangtze River Delta	1,468,824	19.44	2,214	16.54	43,058	14.42
Pearl River Delta	1,074,866	14.23	1,661	12.41	36,097	12.09
Bohai Rim	1,369,934	18.13	2,180	16.29	50,410	16.88
Central	1,157,174	15.32	3,253	24.32	66,394	22.24
Western	1,170,334	15.49	2,696	20.14	62,430	20.91
Northeastern	507,337	6.71	1,367	10.21	34,594	11.58
Head office	3,523,723	46.64	3	0.02	5,251	1.76
Overseas	121,593	1.61	9	0.07	347	0.12
Elimination	(2,846,188)	(37.67)				
Unallocated assets	7,855	0.10				
Total	7,555,452	100.00	13,383	100.00	298,581	100.00

Prospects

In 2009, the development of the financial crisis will largely determine the global economic growth. Judged from the current global economic situation, the developed economies are likely to slump into deeper recessions, and the economic growth of emerging market and developing economies will also slow down. The International Monetary Fund has projected that the financial crisis could drag global economic growth rate down to 0.5% in 2009.

China's overall economic and financial conditions are expected to remain stable in 2009. However, economic growth rate is likely to slow down, as domestic economic uncertainties rose as a result of these global economic turbulence and spreading financial crisis. The Chinese government will continue to strengthen and improve its macro-adjustment polices in order to ensure healthy economic development.

2009 will witness both opportunities and challenges for the operation of commercial banks. On the one hand, the introduction of various policies to boost domestic demand will facilitate the stable and relatively rapid economic growth in China, creating a favourable environment for banks. The government's increased investments in infrastructure are especially beneficial to the development of the Bank's advantage businesses such as infrastructure loans and engineering cost advisory business. The PBC's easy credit policy will help the Bank further adjust its structure. The environment for comprehensive operation loosened, providing excellent opportunities for nurturing new types of businesses. An increase in money supply in 2009 will allow the Bank to absorb more deposits with the wider funding source and more favourable market environment. As the capital market stabilises gradually, the fluctuations of savings deposits and interbank deposits will also weaken. Accelerated liberalisation of interest rates and exchange rates will also give the Bank greater freedom in risk management and financial innovation. On the other hand, commercial banks' net interest margin will narrow in this falling interest rate cycle. The Bank will encounter greater pressure in controlling its non-performing assets with the slowing domestic economic growth, declining exports and adjustments in the property industry. Volatility in the capital market might impede the growth of the Bank's intermediary business and liability business. As funds become relatively ample with the moderately loose monetary policy, improving the efficiency of fund utilisation will become a challenging focus of liquidity management. Movements in exchange rates and interest rates will also require better market risk management and pricing ability.

The Bank will further analyse the international and domestic economic and financial environment, continue to pursue its strategic transformation and seek new development opportunities, and strive to achieve the operating objectives set by the board of directors.

- The Bank will strengthen the concerted efforts to achieving its business objectives for the year. It will watch the size and pace of lending, keep track of the effective loan demand, and fully leverage its traditional strength in infrastructure lending and housing financing. The bank will optimise its deposit structure, and proactively manage its liabilities to ensure stable growth of low-cost funds. It will explore new ways to utilise its fund to improve the yields. In 2009, new loans in RMB are expected to grow by around 16%.

- The Bank will continue to rigorously develop its intermediary business to further raise the contribution of intermediary business to the total profit. It will strive to maintain the rapid growth of its fee and commission income through product innovation, customer expansion, and strengthened fees management and cross-selling efforts.

- The Bank will strengthen coordinated innovation to promote the development of its strategic businesses. Efforts will be made to promote syndicated financing business and deploy successful practices with small enterprise business. The Bank will try to increase the market share of its institutional business, and build the Bank's brand for enterprise annuity service. More efforts will be made to explore financial services in relation to people's livelihood to build up its strength in new markets.

- The Bank will deepen credit structure adjustments and tighten risk management. Different credit policies shall be applied to different industries, areas, customers and products with an aim to ensuring the growth of its priorities in credit extension. The Bank will strictly follow the bottom lines of risk control, and improve its approval management. It will also tightly control the market risk and operational risk, and carry out its business in compliance with regulatory requirements.

- The Bank will push forward its fundamental management and tighten cost control. It will step up the specialisation and centralisation of its middle and back offices, and push forward the business process optimisation and product innovation. The Bank will also actively build its IT development centres. While endeavouring to make more profits, the Bank will tighten cost control, and cut down on administrative expenses while providing full support to business expansion.

Differences between the Financial Statements Prepared under IFRS and those Prepared under PRC GAAP

There is no difference in the net profit for the year ended 31 December 2008 or total equity as at 31 December 2008 between the Group's consolidated financial statements prepared under IFRS and those prepared under PRC GAAP.

Changes in Share Capital and Particulars of Shareholders

Changes in Shares

Unit: share

	1 January 2008		Increase/(Decrease) during the reporting period						31 December 2008	
	Number of shares	Percentage (%)	Issuance of additional shares	Bonus issue	Shares converted from capital reserve	Call options	Others	Sub-total	Number of shares	Percentage (%)
(I) Shares subject to selling restrictions										
1. State-owned shares[1]	138,150,047,904	59.12	—	—	—	(25,580,153,370)[3]	—	(25,580,153,370)	112,569,894,534	48.17
2. Shares held by state-owned legal persons[2]	20,692,250,000	8.85	—	—	—	—	—	—	20,692,250,000	8.85
3. Shares held by other domestic investors	—	—	—	—	—	—	—	—	—	—
Comprising:										
Shares held by domestic non-state-owned legal persons	—	—	—	—	—	—	—	—	—	—
Shares held by domestic natural persons	—	—	—	—	—	—	—	—	—	—
4. Shares held by foreign investors[4]	24,085,845,721	10.31	—	—	—	25,580,153,370[3]	(24,085,845,721)[4]	1,494,307,649	25,580,153,370	10.95
Comprising:										
Shares held by foreign legal persons	—	—	—	—	—	—	—	—	—	—
Shares held by foreign natural persons	—	—	—	—	—	—	—	—	—	—
(II) Shares not subject to selling restrictions										
1. RMB ordinary shares	9,000,000,000	3.85	—	—	—	—	—	—	9,000,000,000	3.85
2. Domestically listed foreign investment shares	—	—	—	—	—	—	—	—	—	—
3. Overseas listed foreign	34,685,001,375	14.84	—	—	—	—	24,085,845,721[4]	24,255,445,721	58,940,447,096	25,22
investment shares	—	—	—	—	—	—	169,600,000			
4. Others[5]	7,075,939,000	3.03	—	—	—	—	(169,600,000)	(169,600,000)	6,906,339,000	2.96
(III) Total number of shares	233,689,084,000	100.00	—	—	—	—	—	—	233,689,084,000	100.00

1. H-shares of the Bank held by Huijin.

2. H-shares of the Bank held by Jianyin.

3. In accordance with the *Share Purchase and Options Agreement* signed by Huijin and Bank of America, Bank of America exercised its call options in July and November 2008, acquiring 6,000,000,000 H-shares and 19,580,153,370 H-shares of the Bank respectively from Huijin, which added up to a total of 25,580,153,370 H-shares that cannot be transferred without the Bank's written consent by 29 August 2011.

4. As at 1 January 2008 Bank of America held 19,132,974,346 H-shares subject to selling restrictions which were lifted on 27 October 2008; Fullerton Financial held 4,952,871,375 H-shares subject to selling restrictions which were lifted on 29 August 2008.

5. As at 1 January 2008, the three promoters of the Bank, State Grid, Baosteel Group and Yangtze Power, held 2,875,939,000 H-shares, 3,000,000,000 H-shares and 1,200,000,000 H-shares of the Bank respectively; as at 31 December 2008, they held 2,706,339,000 H-shares, 3,000,000,000 H-shares and 1,200,000,000 H-shares of the Bank respectively.

Changes in Shares Subject to Selling Restrictions

Name of shareholder	Number of shares subject to restrictions at the beginning of the year	Number of shares released from restrictions during the year	Number of new shares subject to restrictions in the year	Number of shares subject to restrictions at the end of the year	Reason for restrictions	Date of release from restrictions
Huijin	138,150,047,904	25,580,153,370[1]	—	112,569,894,534	The 5-year lock-up period since issuance of H-shares (27 October 2005)	27 October 2010
Jianyin	20,692,250,000	—	—	20,692,250,000	The 5-year lock-up period since issuance of H-shares (27 October 2005)	27 October 2010
Bank of America	19,132,974,346	19,132,974,346	—	—	The 3-year lock-up period since issuance of H-shares (27 October 2005)	27 October 2008
	—	—	25,580,153,370[1]	25,580,153,370[1]	The 25,580,153,370 H-shares acquired by exercise of the call options in 2008 shall not be transferred without the Bank's written consent by 29 August 2011.	29 August 2011
Fullerton Financial	4,952,871,375	4,952,871,375	—	—	The 3-year lock-up period since 29 August 2005.	29 August 2008
Total	182,928,143,625	49,665,999,091	25,580,153,370	158,842,297,904		

1. In accordance with the *Share Purchase and Options Agreement* signed by Huijin and Bank of America, Bank of America exercised its call options in July and November 2008, acquiring 6,000,000,000 H-shares and 19,580,153,370 H-shares of the Bank respectively from Huijin, which added up to a total of 25,580,153,370 H-shares that cannot be transferred without the Bank's written consent by 29 August 2011.

Details of Securities Issuance and Initial Public Offering

On 25 September 2007, the Bank issued 9 billion A-shares in its domestic IPO at an issuance price of RMB6.45 per share and was listed on the Shanghai Stock Exchange. Upon completion of the domestic IPO, the total number of shares of the Bank was 233,689,084,000 (224,689,084,000 H-shares, 9,000,000,000 A-shares) and both the registered capital and paid-in capital were RMB233,689,084,000.

On 11 September 2008, the Bank issued two-year RMB ordinary financial bonds of RMB3 billion with an annual interest rate of 3.24% in Hong Kong. Such bonds are unlisted retail bonds that will mature on 11 September 2010, and the fund raised through this issuance is used for general operating purpose.

Number of Shareholders and Particulars of Shareholdings

At the end of the reporting period, according to the register of members as at 31 December 2008, the Bank had a total of 1,544,780 shareholders, of which 55,950 were holders of H-shares and 1,488,830 were holders of A-shares.

Unit: share

Total number of shareholders 1,544,780

Particulars of shareholdings of the top ten shareholders

Name of shareholder	Nature of shareholder	Shareholding percentage (%)	Total number of shares held	Number of shares subject to selling restrictions	Number of shares pledged or frozen
Huijin	State-owned	48.17	112,569,894,534 (H-shares)	112,569,894,534	None
		0.05	117,614,965 (A-shares)	—	None
Bank of America[1]	Foreign legal person	19.13	44,713,127,716 (H-shares)	25,580,153,370	None
HKSCC Nominees Limited[2]	Foreign legal person	12.53	29,280,954,888 (H-shares)	—	Unknown
Jianyin	State-owned legal person	8.85	20,692,250,000 (H-shares)	20,692,250,000	None
Fullerton Financial	Foreign legal person	5.65	13,207,316,750 (H-shares)	—	None
Baosteel Group	State-owned legal person	1.28	3,000,000,000 (H-shares)	—	None
Reca Investment Limited	Foreign legal person	0.34	800,000,000 (H-shares)	—	None
China Life Insurance Company Limited — Participating — Individual participating	Domestic non-state-owned legal person	0.08	190,056,245 (A-shares)	—	None
China Life Insurance (Group) Company — Traditional — Ordinary insurance products	Domestic non-state-owned legal person	0.07	157,597,200 (A-shares)	—	None
Industrial and Commercial Bank of China — Bosera Selected Stock Fund	Domestic non-state-owned legal person	0.06	150,000,000 (A-shares)	—	None

1. In January 2009, Bank of America sold 5,623,655,000 H-shares of the Bank.

2. As at 31 December 2008, State Grid and Yangtze Power, the promoters of the Bank, held 2,706,339,000 H-shares and 1,200,000,000 H-shares of the Bank respectively, all of which were held under the name of HKSCC Nominees Limited.

3. Jianyin is a wholly-owned subsidiary of Huijin. China Life Insurance Company Limited is a subsidiary controlled by China Life Insurance (Group) Company. Apart from these, the Bank is not aware of any connections among the above shareholders or whether they are parties acting in concert.

4. During the reporting period, Huijin increased its holdings of the shares of the Bank by acquiring 117,614,965 A-shares of the Bank. According to the *Guidelines for the Increase in Shareholding by Shareholders of Listed Companies and Their Persons Acting in Concert* issued by the Shanghai Stock Exchange, Huijin will not reduce its holdings of the A-shares of the Bank in 12 months after its first increase of holdings in September 2008.

Particulars of shareholding of the top ten shareholders not subject to selling restrictions

Name of shareholder	Number of shares not subject to selling restrictions	Type of share
HKSCC Nominees Limited	29,280,954,888	H-share
Bank of America	19,132,974,346	H-share
Fullerton Financial	13,207,316,750	H-share
Baosteel Group	3,000,000,000	H-share
Reca Investment Limited	800,000,000	H-share
China Life Insurance Company Limited — Participating — Individual participating	190,056,245	A-share
China Life Insurance (Group) Company — Traditional — Ordinary insurance products	157,597,200	A-share
Industrial and Commercial Bank of China — Bosera Selected Stock Fund	150,000,000	A-share
Industrial and Commercial Bank of China — China 50 ETF	137,409,138	A-share
China Life Insurance Company Limited — Traditional — Ordinary insurance products — 005L — CT001SH	129,986,850	A-share

1. China Life Insurance Company Limited is a subsidiary controlled by China Life Insurance (Group) Company. Apart from this, the Bank is not aware of any connections among the shareholders or whether they are parties acting in concert.

Substantial Shareholders of the Bank

At the end of the reporting period, Huijin directly held 48.22% of the shares of the Bank and, through its wholly-owned subsidiary Jianyin, indirectly held 8.85% of the shares of the Bank. Huijin is the controlling shareholder of the Bank. Huijin is a wholly state-owned investment company established in accordance with the Company Law on 16 December 2003 with the approval of the State Council. Its registered capital is RMB552,117 million and the legal representative is Mr. Lou Jiwei (pending to change in industrial and commercial registration). Huijin is funded by the state and exercises the investors' rights and obligations on behalf of the state in financial institutions such as the Bank, Bank of China and Industrial and Commercial Bank of China.

Please refer to the *Announcement on Matters related to the Incorporation of China Investment Corporation* published by the Bank on 9 October 2007 for details of China Investment Corporation.

At the end of the reporting period, Bank of America directly held 19.13% of the shares of the Bank. Bank of America is a company registered in Delaware, headquartered in Charlotte, North Carolina. Its chairman is Mr. Kenneth D. Lewis. As one of the largest bank holding companies and financial holding companies in the world, Bank of America provides comprehensive banking, investment, assets management and other financial and risk control products and services to individual customers, small and medium-sized enterprises and large companies. According to the audited balance sheet of Bank of America as at 30 September 2008, the shareholders' equity of Bank of America was US$161,039 million.

There were no other institutional shareholders holding 10% or more of shares of the Bank (excluding HKSCC Nominees Limited). There were no internal staff shares.

Other Information

Purchase, Sale and Redemption of Shares

There is no purchase, sale or redemption by the Bank or any of its subsidiaries of the listed securities of the Bank during the reporting period.

Corporate Governance

The Bank is committed to maintaining high standard of corporate governance, and strives to put the decision-making role of the board of directors and the supervisory role of the board of supervisors at full play. The Bank also continues to improve its management standards, in order to ensure that the information disclosure is more transparent, and the shareholders' interests are well protected. The Bank has complied with the code provisions of the *Code on Corporate Governance Practices* as set out in Appendix 14 of the Listing Rules of Hong Kong Stock Exchange throughout the year ended 31 December 2008.

Securities Transactions by Directors

In relation to securities transactions by directors and supervisors, the Bank has adopted the *Model Code for Securities Transactions by Directors of Listed Issuers* in Appendix 10 of the Listing Rules of Hong Kong Stock Exchange. All directors and supervisors have complied with the code above during the year ended 31 December 2008.

Dividends

The profit of the Group for the year ended 31 December 2008 and the state of the Group's financial affairs as at that date are set out in the "Financial Report" in this annual report.

In accordance with the resolutions passed at the annual general meeting 2007, the Bank paid a final cash dividend for 2007 of RMB0.065 per share (including tax), totalling approximately RMB15,190 million, which was equivalent to 45% of the net profit for the second half of 2007, to all of its shareholders whose names appeared on the register of members on 23 June 2008.

In accordance with the authorisation granted at the annual general meeting 2007 and the resolutions passed at the 16th session of the second board of directors, the Bank paid an interim cash dividend for 2008 of RMB0.1105 per share (including tax), totalling approximately RMB25,823 million, which was equivalent to 45% of the net profit for the first half of 2008, to all of its shareholders whose names appeared on the register of members on 14 November 2008.

The Board recommends a final cash dividend of RMB0.0837 per share for the six months ended 31 December 2008, totalling approximately RMB19,560 million, subject to the approval of the annual general meeting 2008.

In order to determine the holders of H-shares who are entitled to receive the final cash dividend for 2008, the Bank's register of members will be closed from 19 June 2009 to 23 June 2009, both days inclusive, during which period no transfer of H-shares will be effected. Holders of H-shares who wish to receive the final cash dividend for 2008 must deposit the transfer documents together with the relevant share certificates at the H-share registrar of the Bank, Computershare Hong Kong Investor Services Limited, at or before 4:30 p.m. on 18 June 2009. The address of the share registrar Computershare Hong Kong Investor Services Limited is Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. The last trading day of the Bank's H-shares before the ex-dividend date will be 16 June 2009, and the dividend shall be excluded from 17 June 2009. The recommendation will be submitted for approval at the forthcoming annual general meeting 2008. If approved, such final cash dividend for 2008 is expected to be paid to the shareholders around 8 July 2009.

The amounts of cash dividends and ratios of cash dividends to net profit of the bank for the previous three years are as follows:

	2005	**2006**	**2007**
		(In millions of RMB)	
Cash dividends[1]	6,638	20,671	46,583
ratio of cash dividends to net profit[2]	14.09%	44.62%	67.46%

1. Cash dividends include interim cash dividend, special cash dividend and final cash dividend for the year.

2. The net profit refers to the net profit attributable to shareholders of the Bank on a consolidated basis. Please refer to Note "Profit Distributions" to the financial statements in annual reports of the related years for details of cash dividends.

Annual General Meeting and Closure of Register of Members

The 2008 annual general meeting will be held on 11 June 2009. In order to determine the holders of H-shares who are entitled to attend the annual general meeting, the Bank's register of members will be closed from 12 May 2009 to 11 June 2009, both days inclusive, during which period no transfer of shares will be effected. In order to attend the 2008 annual general meeting, holders of H-shares whose transfers have not been registered must deposit the transfer documents together with the relevant share certificates at the H-Share registrar of the Bank, Computershare Hong Kong Investor Services Limited, at or before 4:30 p.m. on 11 May 2009 and the address is Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Annual Report and Announcement

This results announcement is available on the websites of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk, Shanghai Stock Exchange at www.sse.com.cn and the Bank at www.ccb.com. The annual report prepared in accordance with IFRS and prepared in accordance with PRC GAAP will both be published on the websites of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk, Shanghai Stock Exchange at www.sse.com.cn and the Bank at www.ccb.com in due course.

Review of Annual Results

The audit committee has reviewed the Annual Report 2008 of the Bank. KPMG Huazhen and KPMG, the Bank's external auditors, have audited the financial statements of the Bank prepared in accordance with PRC GAAP and those prepared in accordance with IFRS respectively, and have issued unqualified audit reports.

By order of the board of directors
CHINA CONSTRUCTION BANK CORPORATION
Zhang Jianguo
Vice chairman, executive director and president

27 March 2009

As of the date of this announcement, The Bank's executive directors are Mr. Guo Shuqing, Mr. Zhang Jianguo, Ms. Xin Shusen; non-executive directors are Mr. Wang Yonggang, Mr. Wang Yong, Ms. Wang Shumin, Mr. Liu Xianghui, Mr. Zhang Xiangdong, Ms. Li Xiaoling and Mr. Gregory L. Curl; and independent non-executive directors are Lord Peter Levene, Mr. Song Fengming, Ms. Jenny Shipley, Ms. Elaine La Roche, Mr. Wong Kai-Man and Mr. Tse Hau Yin, Aloysius.