中国建设银行
China Construction Bank

# 2009 Half-Year Report

China Construction Bank Corporation

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

Stock Code: 939

# Contents

# Definitions

In this half-year report, unless the context otherwise requires, the following terms shall have the meanings set out below.

| | |
|---|---|
| "Bank" | China Construction Bank Corporation |
| "Bank of America" | Bank of America Corporation |
| "Baosteel Group" | Baosteel Group Corporation |
| "Board" | Board of directors |
| "CBRC" | China Banking Regulatory Commission |
| "CCB Asia" | China Construction Bank (Asia) Corporation Limited |
| "CCB Financial Leasing" | CCB Financial Leasing Corporation Limited |
| "CCB International" | CCB International (Holdings) Limited |
| "CCB London" | China Construction Bank (London) Limited |
| "CCB Principal Asset Management" | CCB Principal Asset Management Co., Ltd. |
| "CSRC" | China Securities Regulatory Commission |
| "Fullerton Financial" | Fullerton Financial Holdings Pte Ltd |
| "Group" | China Construction Bank Corporation and its subsidiaries |
| "Hong Kong Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Huijin" | Central Huijin Investment Ltd. |
| "IFRS" | International Financial Reporting Standards |
| "Jianyin" | China Jianyin Investment Limited |
| "Listing Rules of Hong Kong Stock Exchange" | Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| "PBC" | People's Bank of China |
| "PRC GAAP" | *Accounting Standards for Business Enterprises* promulgated by the MOF on 15 February 2006 and other relevant requirements |
| "RMB" | Renminbi |
| "Sino-German Bausparkasse" | Sino-German Bausparkasse Corporation Limited |

| | |
|---|---|
| "State Grid" | State Grid Corporation of China |
| "Temasek" | Temasek Holdings (Private) Limited |
| "Yangtze Power" | China Yangtze Power Co., Limited |

We have included in this report certain forward-looking statements with respect to our financial position, operating results and business development. We use words such as "will", "may", "expect", "try", "strive", and similar expressions to identify forward-looking statements. These statements are based on current plans, estimates and projections. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statements. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statements. These factors include, among others: changes in general economic conditions in the markets in which the Group operates, changes in the government's adjustment and control policies and in laws and regulations, and factors specific to the Group.

# Corporate Information

| | |
|---|---|
| Legal name and abbreviation in Chinese | 中國建設銀行股份有限公司 (abbreviated as "中國建設銀行") |
| Legal name and abbreviation in English | China Construction Bank Corporation (abbreviated as "CCB") |
| Legal representative | Guo Shuqing |
| Authorised representatives | Zhang Jianguo<br>Chan Mei Sheung |
| Secretary to the Board | Chen Caihong<br>Contact Address: No. 25, Finance Street, Xicheng District, Beijing<br>Telephone: 86-10-66215533<br>Facsimile: 86-10-66218888<br>Email: ir@ccb.com |
| Company secretary | Chan Mei Sheung |
| Qualified accountant | Yuen Yiu Leung |
| Registered address and postcode | No. 25, Finance Street, Xicheng District, Beijing 100032 |
| Internet website | www.ccb.com |
| Email address | ir@ccb.com |
| Principal place of business in Hong Kong | 44-45/F, Tower One, Lippo Centre, 89 Queensway, Admiralty, Hong Kong |
| Newspapers for information disclosure | China Securities Journal and Shanghai Securities News |
| Website of the Shanghai Stock Exchange for publishing the half-year report prepared in accordance with PRC GAAP | www.sse.com.cn |
| Website of Hong Kong Stock Exchange for publishing the half-year report prepared in accordance with IFRS | www.hkex.com.hk |
| Place where copies of this half-year report are kept | Board of directors office of the Bank |
| Listing stock exchanges, stock abbreviations and stock codes | A-share: Shanghai Stock Exchange<br>Stock abbreviation: 建設銀行<br>Stock code: 601939<br>H-share: The Stock Exchange of Hong Kong Limited<br>Stock abbreviation: CCB<br>Stock code: 939 |

| | |
|---|---|
| Date and place of first incorporation | 17 September 2004<br>State Administration for Industry & Commerce of the People's Republic of China |
| Registration number of the corporate legal person business license | 1000001003912 |
| Organisation code | 10000444-7 |
| Financial license institution number | B0004H111000001 |
| Taxation registration number | 京稅證字 110102100004447 |
| Certified public accountants | KPMG Huazhen<br>Address: 8/F, Office Tower E2, Oriental Plaza, Dongcheng District, Beijing<br>KPMG<br>Address: 8/F, Prince's Building, 10 Chater Road, Central, Hong Kong |
| Legal advisor as to PRC laws | Beijing Commerce & Finance Law Offices<br>Address: 6/F, NCI Tower, A12 Jianguomenwai Avenue, Beijing |
| Legal advisor as to Hong Kong laws | Freshfields Bruckhaus Deringer<br>Address: 11/F, Two Exchange Square, Central, Hong Kong |
| A-share registrar | China Securities Depository and Clearing Corporation Limited, Shanghai Branch<br>Address: 36/F, China Insurance Building, 166 East Lujiazui Road, Pudong New District, Shanghai |
| H-share registrar | Computershare Hong Kong Investor Services Limited<br>Address: Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong |

# Financial Highlights

The financial information set forth in this half-year report is prepared in accordance with the IFRS on a consolidated basis, unless otherwise stated.

| (Expressed in millions of RMB unless otherwise stated) | **Six months ended 30 June 2009** | Six months ended 30 June 2008 | **Change (%)** |
|---|---|---|---|
| **Current period** | | | |
| Operating income | **131,465** | 135,736 | (3.15) |
| Profit before tax | **72,469** | 75,655 | (4.21) |
| Net profit | **55,841** | 58,692 | (4.86) |
| Net profit attributable to shareholders of the Bank | **55,806** | 58,667 | (4.88) |
| **Per share** (In RMB) | | | |
| Basic and diluted earnings per share | **0.24** | 0.25 | (4.00) |
| **Profitability indicators** (%) | | | **Change +/(–)** |
| Annualised return on average assets[1] | **1.34** | 1.72 | (0.38) |
| Annualised return on average equity | **22.54** | 26.36 | (3.82) |
| Net interest spread | **2.34** | 3.16 | (0.82) |
| Net interest margin | **2.46** | 3.29 | (0.83) |
| Net fee and commission income to operating income | **17.82** | 14.86 | 2.96 |
| Cost-to-income ratio | **35.13** | 34.03 | 1.10 |
| Loan-to-deposit ratio | **59.47** | 61.19 | (1.72) |

1. Calculated by dividing net profit by the average of total assets at the beginning and end of the period and then multiplying two.

| (Expressed in millions of RMB unless otherwise stated) | **30 June 2009** | 31 December 2008 | **Change (%)** |
|---|---|---|---|
| **At period-end** | | | |
| Net loans and advances to customers | **4,409,152** | 3,683,575 | 19.70 |
| Total assets | **9,110,171** | 7,555,452 | 20.58 |
| Deposits from customers | **7,610,022** | 6,375,915 | 19.36 |
| Total liabilities | **8,603,637** | 7,087,890 | 21.39 |
| Total equity attributable to shareholders of the Bank | **504,776** | 465,966 | 8.33 |
| Issued and paid-in capital | **233,689** | 233,689 | — |
| **Per share** (In RMB) | | | |
| Net assets per share | **2.17** | 2.00 | 8.50 |
| **Capital adequacy indicators** (%) | | | **Change +/(–)** |
| Core capital adequacy ratio[1] | **9.30** | 10.17 | (0.87) |
| Capital adequacy ratio[1] | **11.97** | 12.16 | (0.19) |
| Total equity to total assets | **5.56** | 6.19 | (0.63) |
| **Asset quality indicators** (%) | | | |
| Non-performing loan ratio | **1.71** | 2.21 | (0.50) |
| Allowances to non-performing loans | **150.51** | 131.58 | 18.93 |
| Allowances to total loans | **2.57** | 2.91 | (0.34) |

1. Calculated in accordance with the guidelines issued by the CBRC.

# Chairman's Statement

Dear shareholders,

In face of the global financial crisis and the cyclical adjustments of domestic economy, the Chinese government took a series of economic stimulus measures, and China's economy rebounded in the first half of 2009 as evidenced by GDP growth of 6.1% for the first quarter, and 7.9% for the second quarter. Meanwhile, China experienced extraordinarily high-speed growth of money supply and credit during the period. We capitalised on the situation by continuing to operate in a proactive and sound manner, and performed well in terms of providing better customer services and supporting economic development as well as adjusting structure and tightening risk control. All financial indicators were in line with our expectations, and we continued to outperform our peers in terms of overall competitiveness and value creation capabilities.

The Group made steady progress in various management and reform initiatives in accordance with the development strategies set by the Board. Management upgrades in the direction of specialisation and sophistication continued, along with improved business processes and transformed operating models. Innovations in products and services were also strengthened, leading to enhanced customer satisfaction. We continued to improve the internal control system, and strengthened risk management and internal control, achieving strong growth with balanced risks and benefits. We stepped up credit structure adjustments, with improving industry and customer structures. In addition, the Group strengthened strategic cooperation and experience-sharing with Bank of America, Temasek and other leading international banks, and succeeded in maintaining its leading market position in various operations in China's banking sector.

The Group achieved good results in various lines of businesses. It continued to play a key role in infrastructure investment financing market, and outperformed its domestic competitors in not only the balance and increase of residential mortgages, but also the increase of credit card loans. The growth rate of net fee and commission income was among the highest in the market, with an increased proportion of net fee and commission income in its operating income. The Group continued to push forward comprehensive operations by successfully acquiring interests in Hefei Xingtai Trust Co., Ltd., and opening its New York branch and a banking subsidiary in London.

Our profitability and key financial indicators continued to outperform our peers, with the rebounding earnings for the second quarter over the first quarter of 2009. In the first half of 2009, the Group realised a net profit of RMB55,841 million with the annualised return on average assets of 1.34%, annualised return on average equity of 22.54%, and earnings per share of RMB0.24. Asset quality improved steadily with declining non-performing loans in both amount and ratio.

Enjoying wide support and general recognition in the market and the financial industry, the Bank won more than 40 awards and titles at home and abroad in the first half of 2009. It ranked ninth in *The Banker*'s "Top 500 Global Financial Brands" and 12th in its "Top 1000 World Banks". It was also declared the "Best Domestic Bank in China for 2009" by *Asiamoney* and the "Best Bank in China" by *Euromoney*. The Bank was named the "Best Retail Bank in China" by *Capital* magazine in Hong Kong for the second consecutive years, and received the "Achievement Award for Risk Management in China" from the *Asian Banker*. In addition, the Bank won the "Special Contribution Award of the 20th anniversary" of the China Foundation for Poverty Alleviation and was presented the "Most Responsible Enterprise Award" by the Chinese Red Cross Foundation.

I am greatly indebted to our staff at all units and levels for their dedication and hard work in contributing to the good results achieved in the first half of 2009 amid the challenging operating environment at home and abroad, and would like to extend my sincere gratitude to our community, our customers and our shareholders for their unswerving support.

Looking ahead to the second half of 2009, despite signs of economic warming up within and outside the country, it will still take some time to recover from the prevailing crisis. With full confidence and patience, we are well-positioned for such a recovery. We will continue to operate in a proactive and sound manner, enhance our financial services with strengthened risk control and structural adjustment, and refine specialised operations and professional management, in order to meet our operating targets for the year while providing better services to our customers and contributing to the economic development of the country.

**Guo Shuqing**
*Chairman*

21 August 2009

# President's Report

Dear shareholders,

In the first half of 2009, thanks to the positive changes in China's economy and our staff's resolution to overcome the hard times with concerted efforts, the Group has maintained good operating momentum and achieved proactive and steady business growth with risks under effective control.

## Stable operating results

In the first half of 2009, the Group achieved profit before tax of RMB72,469 million and net profit of RMB55,841 million, dropping slightly over the same period last year. Operating income was RMB131,465 million. In this amount, net fee and commission income rose by 16.13% to RMB23,422 million, accounting for 17.82% of the operating income. The cost-to-income ratio was kept at a low level of 35.13%.

As at 30 June 2009, total assets rose by 20.58% to RMB9,110,171 million over the end of last year. Gross loans and advances to customers rose by 19.28% to RMB4,525,357 million and deposits from customers grew by 19.36% to RMB7,610,022 million. The loan-to-deposit ratio dropped by 0.03 percentage points to 59.47% compared to the end of last year, staying at a reasonable level.

Asset quality has continued to improve with enhanced risk mitigating capabilities. As at 30 June 2009, the Group's non-performing loans dropped by RMB6,674 million to RMB77,208 million, and the non-performing loan ratio dropped by 0.50 percentage points to 1.71% compared to the end of 2008. The ratio of allowances for impairment losses to non-performing loans rose by 18.93 percentage points over the end of 2008 to 150.51%.

## Sound Business Growth

### Rapid and sound development of corporate business

Corporate banking made profit before tax of RMB43,588 million, which rose by 8.65% over the same period last year and contributed 60.15% of the total profit before tax of the Group. Net fee and commission income from corporate banking rose by 27.01% to RMB9,988 million over the same period last year. The Bank's advantage products such as cost advisory service, corporate RMB settlement service and domestic guarantees delivered good results, and new products such as domestic factoring and syndicated loans maintained fast growth. The Bank's institutional agency services with government agencies, banks, and insurance companies enjoyed notable market advantages. Assets under custody rose by 23.45% to RMB777,592 million.

Corporate loans have been granted at a deliberate pace, and the credit structure has been adjusted effectively. Corporate loans rose by RMB514,400 million to RMB3,204,184 million compared to the end of last year. The majority of new loans were granted to key national projects to boost domestic demand as well as to the Bank's strategic priority businesses. Of these, loans to infrastructure industries amounted to RMB1,476,911 million, an increase of RMB288,424 million, or 24.27%, compared to the end of last year. Small enterprise loans climbed by RMB60.7 billion to RMB548.9 billion, and loans to support agriculture, rural areas and farmers grew by RMB107,379 million, or 25.2%. The Bank voluntarily withdrew RMB29,431 million in loans from industries that did not comply with government's industrial policies and environmental policies or exhibited relatively high non-performing loan ratios.

### Personal business outperforming competitors

Personal banking made profit before tax of RMB13,148 million, an increase of 12.85% over the same period of 2008. The contribution of personal banking to the total pre-tax profit rose to 18.14%. Personal loans rose by RMB126,917 million compared to the end of last year to RMB948,448 million. In this amount, personal residential mortgage loans were RMB714,923 million, which focused on meeting the customers' housing needs and outperformed competitors in terms of both balance and increase. With improved product, customer and region structures, the Group enjoyed improved asset quality for personal loans.

The number and transaction volume of bank cards issued grew briskly. The number of debit cards issued by the Bank totalled 299 million, 27,997.7 thousand more than that at the end of last year. Transaction volume increased by 49.25% over the same period last year to RMB316,776 million, generating fee and commission income of RMB2,647 million, up 18.47% over the same period last year. The number of credit cards issued increased by 3.23 million to 21.94 million, with the largest increase in credit card loans in the market.

### Proactive promotion of financial market business and investment banking

The Group adjusted its investment portfolio management strategies on a timely basis by increasing RMB bond investments and reducing risk exposures of foreign currency investments with further downsized foreign currency portfolios. Reflecting the rapid growth of gold business, 251.97 tons of gold were traded in account gold business, 4.7 times the trading volume for the same period last year, while physical gold business dominated the market with 9.22 tons of gold being traded, up 90% over the same period last year.

Investment banking business generated an income of RMB5,320 million, an increase of RMB2,117 million, or 66.09%, compared to the same period last year. Of these, income from financial advisory business was RMB4,040 million, up 56.95%; income from debt securities underwriting rose by 281.25% to RMB366 million while the cumulative volume of commercial paper underwriting led the market. Furthermore, the Bank launched several innovative wealth management products for infrastructure and alternative investments in the market.

## Refined Fundamental Management and Customer Services

### Fully strengthened risk management and internal control

The Group actively tackled the adverse effects of the economic slowdown by strengthening adjustments to credit structure, refining credit policies and upgrading post-lending management. The Group also refined the risk management system, accelerated centralised risk management in the cities where tier-one branches are located, improved risk management tools, and refined economic capital and industry-specific risk exposure limit management. The Group strengthened systems and model development, and pushed forward the implementation of the new Basel capital accord.

### Investment in key IT projects

Despite tightening cost management, the Group ensured its investments in key IT projects. IT systems worked in a safe and stable manner with enhanced supporting capabilities in product innovation, customer services and risk management, and the overall data quality was further improved.

### Improved customer service and market development capabilities

The Bank promoted specialised operations of wholesale and retail business lines by setting up and refining wholesale and retail business committees. It also strengthened specialised operating entities by setting up 104 SME business operation centres run by professional sales personnel based on the "Credit Factory" model to improve the overall marketing capability. In the first half of 2009, the corporate and institutional accounts rose by 90,000, while individual accounts rose by over 28 million over the end of last year.

The Bank has established 2,198 personal finance centres, 109 wealth management centres, and three private banking centres. The Bank further refined its differentiated service channel system for high net worth customers by setting up an electronic service channel of "400" VIP hotline exclusive for high net worth customers. It improved market competiveness in retail business with continued branch transformation, with a total of 12,333 retail outlets completing the shift from a transaction and accounting focus to marketing and service oriented function.

### Fruitful strategic cooperation

In the first half of 2009, the Bank continued promoting intensive strategic assistance projects with Bank of America. The Bank's online banking realised "7×24" real-time monitoring for customer experience stability with response time considerably reduced. Leadership models, performance management, talent assessment & cultivation and other tools and processes were being rolled out across the Bank gradually; key projects, including product innovation labs, high net worth customer event-driven relationship management, small and medium-sized enterprise customer acquisition and sales process improvement and counterparty risk management, made smooth progress. Furthermore, 32 experience-sharing projects and two sessions of business training programmes in the US were accomplished. Fullerton Financial continued to provide the Bank with training resources in wealth management, private banking and other areas.

## Outlook

The Group will keep a close eye on market conditions and changes in policies, and strengthen its research capabilities in order to grasp economic development opportunities and mitigate risks while ensuring sound business development.

- The Group will continue to control the size and pace of lending, further adjust credit structure, and focus on supporting the advantage businesses such as infrastructure loans and mortgage loans for residential purpose.

- The Group will strengthen its customer service and credit product innovation in order to enhance pricing ability, improve deposit structure by strengthening proactive liabilities management to control its funding costs, and explore more channels to use funds more efficiently.

- The Group will try to expand the contribution of fee and commission income to total profits, by building its own fee-based business brands and consolidating its competitive advantages in the market.

- The Group will tighten lending criteria and approval standards, strengthen risk examinations for key customers and key areas, and establish long-term mechanism for post-lending management in order to further improve its asset quality.

The Group will face the current challenges by trying to boost operating income and prevent risks, in order to meet the operating targets of the year and create values for our shareholders, customers and wider business community. Hereby I would like to extend my sincere gratitude to the board of directors and the board of supervisors for their support, and thank our staff for their concerted efforts.

**Zhang Jianguo**
*Vice chairman, executive director and president*

21 August 2009

## FINANCIAL REVIEW

To address the global financial crisis and possible economic slowdown, the Chinese government has been implementing proactive fiscal policies and moderately loose monetary policies since the third quarter of 2008. China's GDP for the first half of 2009 reached RMB13.99 trillion, representing an increase of 7.1% over the same period last year.

China's financial market performed in a sound manner on the whole in the first half of 2009. Money supply and credit grew rapidly over the end of last year. The outstanding broad money M2 rose by 28.5% to RMB56.9 trillion, and the outstanding narrow money M1 rose by 24.8% to RMB19.3 trillion. Loans in RMB made by financial institutions during the period increased by RMB7.4 trillion, RMB4.9 trillion higher than the increase during the same period last year. Transactions were active in both the money market and bond market, the stock market staged smart rebound, and the foreign currency market remained stable.

The Group kept abreast of changes in China's general economic conditions, and maintained stable operating results in line with the government's macroeconomic adjustment policies.

### Income Statement Analysis

For the first half of 2009, the Group achieved profit before tax of RMB72,469 million, down by RMB3,186 million, or 4.21%, over the same period last year. Net profit was RMB55,841 million, down by RMB2,851 million, or 4.86%, over the same period last year. The decreases were mainly due to the net interest income, which decreased by RMB8,612 million, or 7.75%, over the same period last year as net interest margin narrowed substantially as a result of the PBC's asymmetric interest rate cuts and the declining market interest rates.

| (In millions of RMB, except percentages) | **Six months ended 30 June 2009** | Six months ended 30 June 2008 | **Change (%)** |
|---|---|---|---|
| Net interest income | **102,468** | 111,080 | (7.75) |
| Net fee and commission income | **23,422** | 20,168 | 16.13 |
| Other net income | **5,575** | 4,488 | 24.22 |
| **Operating income** | **131,465** | 135,736 | (3.15) |
| Operating expenses | **(46,185)** | (46,193) | (0.02) |
| Provisions for impairment losses | **(12,819)** | (13,906) | (7.82) |
| Share of profit in associates and jointly controlled entities | **8** | 18 | (55.56) |
| **Profit before tax** | **72,469** | 75,655 | (4.21) |
| **Income tax** | **(16,628)** | (16,963) | (1.97) |
| **Net profit** | **55,841** | 58,692 | (4.86) |

### *Net Interest Income*

In the first half of 2009, the Group's net interest income was RMB102,468 million, a decrease of RMB8,612 million, or 7.75%, over the same period last year.

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

| (In millions of RMB, except percentages) | **Six months ended 30 June 2009** Average balance | Interest income/ expense | Average annualised yield/cost (%) | Six months ended 30 June 2008 Average balance | Interest income/ expense | Average annualised yield/cost (%) |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Gross loans and advances to customers | **4,238,619** | **120,501** | **5.69** | 3,414,782 | 120,638 | 7.07 |
| Debt securities investments[1] | **2,151,336** | **35,283** | **3.28** | 2,178,212 | 39,247 | 3.60 |
| Deposits with central banks | **1,240,204** | **8,961** | **1.45** | 916,846 | 8,296 | 1.81 |
| Deposits and placements with banks and non-bank financial institutions | **56,345** | **353** | **1.25** | 100,765 | 1,515 | 3.01 |
| Financial assets held under resale agreements | **646,265** | **3,337** | **1.03** | 138,522 | 2,497 | 3.61 |
| Total interest-earning assets | **8,332,769** | **168,435** | **4.04** | 6,749,127 | 172,193 | 5.10 |
| Total allowances for impairment losses | **(114,037)** | | | (98,287) | | |
| Non-interest-earning assets | **219,350** | | | 218,398 | | |
| Total assets | **8,438,082** | **168,435** | | 6,869,238 | 172,193 | |
| **Liabilities** | | | | | | |
| Deposits from customers | **7,064,940** | **58,302** | **1.65** | 5,501,072 | 53,491 | 1.94 |
| Deposits and placements from banks and non-bank financial institutions | **614,978** | **5,957** | **1.94** | 699,981 | 5,849 | 1.67 |
| Financial assets sold under repurchase agreements | **797** | **8** | **2.01** | 27,067 | 396 | 2.93 |
| Debt securities issued | **82,833** | **1,675** | **4.04** | 50,301 | 1,186 | 4.72 |
| Other interest-bearing liabilities | **1,344** | **25** | **3.72** | 10,100 | 191 | 3.78 |
| Total interest-bearing liabilities | **7,764,892** | **65,967** | **1.70** | 6,288,521 | 61,113 | 1.94 |
| Non-interest-bearing liabilities | **150,601** | | | 144,363 | | |
| Total liabilities | **7,915,493** | **65,967** | | 6,432,884 | 61,113 | |
| **Net interest income** | | **102,468** | | | 111,080 | |
| **Net interest spread** | | | **2.34** | | | 3.16 |
| **Net interest margin** | | | **2.46** | | | 3.29 |

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.

As a result of the cuts in benchmark deposit and lending rates by the PBC, the preferential interest rates for residential mortgage loans, and the falling market interest rates, the yields of loans and advances to customers, debt securities investments, and financial assets held under resale agreements and other interest-earning assets all dropped sharply over the same period last year. Meanwhile, the Group increased debt securities and bills held under resale agreements, resulting in an increase of 5.70 percentage points in the proportion of the average balance of financial assets held under resale agreements with relatively low yields in total interest-earning assets. The average yield of total interest-earning assets thus dropped by 106 basis points from the same period last year to 4.04%.

As the cuts in benchmark lending rates by the PBC were larger than those in benchmark deposit rates, and the repricing of deposits often lagged behind that of lending, the decrease in the Group's average costs of deposits was lower than that in the Group's average yields of lending. Meanwhile, as a result of the volatile capital market since 2008, the proportion of time deposits in total deposits rose again, with the proportion of average balance of time deposits in that of total interest-bearing liabilities up 6.42 percentage points compared to the same period last year. The average cost of the interest-bearing liabilities thus decreased by 24 basis points to 1.70% over the same period last year.

As the decrease in the average yields of the interest-earning assets was higher than that in the average costs of the interest-bearing liabilities, net interest spread dropped by 82 basis points to 2.34%. As the net interest income decreased by 7.75% against 23.46% increase in the average balance of interest-earning assets, net interest margin narrowed by 83 basis points to 2.46% compared to the same period last year.

On the whole, the Group's net interest margin is under downward pressure but with the gradual economic recovery, the bottoming out of market rates and the shrinking time lag between repricing of deposits and lending, decrease in net interest margin had slowed down notably. The Group's net interest margin for the first half of 2009 was 2.46%, down 12 basis points, or 4.65% compared to that for the first quarter, while the margin for the first quarter of 2009 narrowed by 66 basis points, or 20.37% compared to the year of 2008.

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 the first half of 2009 versus the same period last year.

| (In millions of RMB) | Volume factor[1] | Interest rate factor[1] | Change in interest income/expense |
|---|---|---|---|
| **Assets** | | | |
| Gross loans and advances to customers | 25,963 | (26,100) | (137) |
| Debt securities investments | (479) | (3,485) | (3,964) |
| Deposits with central banks | 2,551 | (1,886) | 665 |
| Deposits and placements with banks and non-bank financial institutions | (500) | (662) | (1,162) |
| Financial assets held under resale agreements | 3,686 | (2,846) | 840 |
| **Change in interest income** | 31,221 | (34,979) | (3,758) |
| **Liabilities** | | | |
| Deposits from customers | 13,705 | (8,894) | 4,811 |
| Deposits and placements from banks and non-bank financial institutions | (759) | 867 | 108 |
| Financial assets sold under repurchase agreements | (293) | (95) | (388) |
| Debt securities issued | 691 | (202) | 489 |
| Other interest-bearing liabilities | (212) | 46 | (166) |
| **Change in interest expense** | 13,132 | (8,278) | 4,854 |
| **Change in net interest income** | 18,089 | (26,701) | (8,612) |

1. Change caused by both average balances and average interest rates has been allocated to volume factor and interest rate factor based on the weights of change caused by these two factors separately.

Net interest income decreased by RMB8,612 million compared to the same period last year. Of these, the change in average balances of assets and liabilities brought about an increase of net interest income of RMB18,089 million, and the change in average yields or average costs resulted in a decrease of net interest income of RMB26,701 million.

### Interest income

The Group's interest income in the first half of 2009 was RMB168,435 million, a decrease of RMB3,758 million, or 2.18%, compared to the same period last year.

*Interest income from loans and advances to customers*

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

| | **Six months ended 30 June 2009** | | | Six months ended 30 June 2008 | | |
|---|---|---|---|---|---|---|
| (In millions of RMB, except percentages) | **Average balance** | **Interest income** | **Average annualised yield (%)** | Average balance | Interest income | Average annualised yield (%) |
| **Corporate loans** | **3,014,169** | **93,751** | **6.22** | 2,449,333 | 88,131 | 7.20 |
| Short-term loans maturing within 1 year | **951,759** | **27,832** | **5.85** | 848,023 | 29,807 | 7.03 |
| Medium to long-term loans | **2,062,410** | **65,919** | **6.39** | 1,601,310 | 58,324 | 7.28 |
| **Personal loans** | **870,588** | **22,618** | **5.20** | 743,171 | 26,105 | 7.03 |
| **Discounted bills** | **235,291** | **2,689** | **2.29** | 111,608 | 3,928 | 7.04 |
| **Overseas operations** | **118,571** | **1,443** | **2.43** | 110,670 | 2,474 | 4.47 |
| **Gross loans and advances to customers** | **4,238,619** | **120,501** | **5.69** | 3,414,782 | 120,638 | 7.07 |

Interest income from loans and advances to customers dropped by RMB137 million to RMB120,501 million over the same period last year, mainly due to the significant decline in the average yield of loans and advances to customers, though partly offset by the growth in the average balance. Due to the cuts in benchmark lending rates by the PBC, the discount on interest rates for residential mortgage loans and ample market liquidity, the average yields of corporate loans, personal loans, and discounted bills dropped by 98 basis points, 183 basis points, and 475 basis points respectively over the same period last year. The average yield of short-term corporate loans maturing within 1 year decreased by 118 basis points to 5.85%, while that of medium to long-term loans slid by 89 basis points to 6.39%.

*Interest income from debt securities investments*

Interest income from debt securities investments was RMB35,283 million, down by RMB3,964 million, or 10.10%, over the same period last year, mainly because the yield of debt securities investment portfolio dropped by 32 basis points to 3.28% as a result of the falling market interest rates. In this amount, interest income from investment debt securities was RMB34,534 million, down by 11.17%.

*Interest income from deposits with central banks*

Interest income from deposits with central banks amounted to RMB8,961 million, an increase of RMB665 million, or 8.02%, over the same period of 2008. This was mainly because the average balance of deposits with central banks grew by 35.27% over the same period last year in line with the substantial increase in deposits from customers.

*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 RMB1,162 million to RMB353 million. This was mainly because the continued decline of money market rates drove the average yield of deposits and placements with banks and non-bank financial institutions down by 176 basis points to 1.25%.

*Interest income from financial assets held under resale agreements*

Interest income from financial assets held under resale agreements rose by RMB840 million, or 33.64%, to RMB3,337 million compared to the same period last year. This was mainly because the Group increased bonds and bills held under resale agreements to raise short-term fund utilisation efficiency, and the average balance rose by 366.54% over the same period last year.

### Interest expense

In the first half of 2009, the Group's interest expense was RMB65,967 million, an increase of RMB4,854 million, or 7.94%, over the same period last year.

*Interest expense on deposits from customers*

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

| (In millions of RMB, except percentages) | **Six months ended 30 June 2009** | | | Six months ended 30 June 2008 | | |
|---|---|---|---|---|---|---|
| | **Average balance** | **Interest expense** | **Average annualised cost (%)** | Average balance | Interest expense | Average annualised cost (%) |
| **Corporate deposits** | **3,670,100** | **25,001** | **1.36** | 2,948,322 | 25,198 | 1.71 |
| Demand deposits | **2,337,890** | **7,147** | **0.61** | 2,037,719 | 10,234 | 1.00 |
| Time deposits | **1,332,210** | **17,854** | **2.68** | 910,603 | 14,964 | 3.29 |
| **Personal deposits** | **3,319,601** | **32,407** | **1.95** | 2,483,475 | 27,464 | 2.21 |
| Demand deposits | **1,239,425** | **2,261** | **0.36** | 1,034,052 | 3,708 | 0.72 |
| Time deposits | **2,080,176** | **30,146** | **2.90** | 1,449,423 | 23,756 | 3.28 |
| **Overseas operations** | **75,239** | **894** | **2.38** | 69,275 | 829 | 2.39 |
| **Total deposits from customers** | **7,064,940** | **58,302** | **1.65** | 5,501,072 | 53,491 | 1.94 |

Interest expense on deposits from customers was RMB58,302 million, an increase of RMB4,811 million, or 8.99%, over the same period last year, mainly because of the substantial increase in the average balance of deposits from customers over that in the same period last year. Affected by the cuts in benchmark deposit rates by the PBC, the average cost of deposits from customers dropped by 29 basis points to 1.65% compared to the same period last year.

*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 RMB5,957 million, an increase of RMB108 million, or 1.85%, over the same period of 2008, largely because the average cost rose by 27 basis points to 1.94% as a result of fast growth of time deposits from banks and non-bank financial institutions.

## *Net Fee and Commission Income*

| (In millions of RMB) | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| **Fee and commission income** | **24,391** | 20,926 |
| Consultancy and advisory fees | **6,262** | 3,562 |
| Agency service fees | **4,359** | 6,190 |
| Bank card fees | **4,280** | 3,258 |
| Commission on trust and fiduciary activities | **3,257** | 2,603 |
| Settlement and clearing fees | **2,931** | 2,238 |
| Guarantee and credit commitment fees | **1,473** | 1,727 |
| Others | **1,829** | 1,348 |
| **Fee and commission expenses** | **(969)** | (758) |
| **Net fee and commission income** | **23,422** | 20,168 |

The Group realised net fee and commission income of RMB23,422 million, an increase of RMB3,254 million, or 16.13%, over the same period last year. The ratio of net fee and commission income to operating income rose by 2.96 percentage points over the same period last year to 17.82%.

Consultancy and advisory fees increased by RMB2,700 million, or 75.80%, to RMB6,262 million over the same period last year. Of these, project cost advisory fees increased by 157.14% to RMB2,088 million as the Bank leveraged its project cost advisory service, which enjoyed brand and market advantages, to grasp the opportunities brought by the government's economic stimulus package.

Fees for agency services decreased by RMB1,831 million to RMB4,359 million over the same period last year, mainly because fees from customer-driven foreign currency transactions and fund agency service dropped significantly amid the global financial crisis and the volatile domestic capital market.

Bank card fees grew by RMB1,022 million, or 31.37%, to RMB4,280 million, largely due to the continued steady rise in the number of issued bank cards, consumer spending and transactions through self-service facilities, as the Group increased its marketing efforts and resources invested.

Commission on trust and fiduciary business rose by RMB654 million, or 25.12%, to RMB3,257 million. In this amount, the "Safe Deal" service generated fees of RMB736 million, a rise of 210.55% over the same period last year, as a result of business process optimisation, improvement of business efficiency and product innovation.

Settlement and clearing fees rose by RMB693 million, or 30.97%, to RMB2,931 million, thanks to the rapid growth of the corporate RMB settlement service, which generated fees of RMB1,295 million with an increase of 99.54%, as a result of improved marketing and services.

### *Net Gain on Investment Securities*

In the first half of 2009, the Group realised a net gain on investment securities of RMB3,458 million, an increase of RMB1,812 million, or 110.09%, over the same period last year, mainly because of increased gains from disposals of the available-for-sale financial assets and held-to-maturity investments over the same period last year.

### *Other Net Operating Income*

In the first half of 2009, the Group recorded other net operating income of RMB770 million, including a net foreign exchange loss of RMB38 million, a net gain of RMB44 million on disposal of fixed assets, a net gain of RMB180 million on disposal of repossessed assets, and other income of RMB584 million.

The composition of foreign exchange exposures as at 30 June 2009 and the respective gain and loss for the first half of 2009 are set out below.

| | As at 30 June 2009 Composition of foreign exchange exposures | | | Six months ended 30 June 2009 |
|---|---|---|---|---|
| (In millions of RMB) | **On balance sheet** | **Off-balance sheet** | **Total** | **Foreign exchange gain/(loss)** |
| Foreign currency assets and proprietary financial derivatives | **71,520** | **(71,520)** | **—** | **(60)** |
| Others | **11,004** | **6,301** | **17,305** | **22** |
| **Net foreign exchange exposure** | **82,524** | **(65,219)** | **17,305** | |
| **Net foreign exchange loss** | | | | **(38)** |

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 the first half of 2009, in order to minimise the market risk associated with foreign currency business, the Group reduced the balance of foreign currency assets and proprietary financial derivatives, with a decline of RMB42,528 million in the exposures of the relevant derivative products over the end of last year. The net loss on foreign currency assets was RMB60 million, after taking into account the effect of the financial derivatives for hedging purposes. This was mainly due to the declining balance of cross-currency interest rate swaps and revaluation loss caused by adverse market movements.

Other net exchange gain

The net gain from customer-driven forex trading and revaluation of the Group's net foreign exchange exposure was RMB22 million. In this amount, the net gain from customer-driven forex trading was RMB15 million, a slight drop over the same period last year. This was primarily due to the shrinking customer-driven forex transaction volume and forward forex trading balance as a result of the slowdown of China's imports and exports and inbound foreign direct investment.

### *Operating Expenses*

| (In millions of RMB, except percentages) | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| Staff costs | **21,633** | 22,093 |
| Premises and equipment expenses | **7,848** | 7,225 |
| Business tax and surcharges | **8,036** | 7,717 |
| Others | **8,668** | 9,158 |
| **Total operating expenses** | **46,185** | 46,193 |
| **Cost-to-income ratio** | **35.13%** | 34.03% |

In the first half of 2009, the Group strengthened its cost controls with improved cost structure, and the total operating expenses decreased slightly to RMB46,185 million over the same period last year.

Staff costs were down by RMB460 million, or 2.08%, to RMB21,633 million. Premises and equipment expenses rose by 8.62%, largely because of higher depreciation and amortisation costs, rentals and property management fees compared to the same period last year, as the Group continued with its branch transformation and expanded related investments. Business tax and surcharges increased by RMB319 million, or 4.13%, in line with higher taxable operating income such as loan interest income and fees and commission income. Other operating expenses dropped by 5.35% over the same period last year, with a sharp decline in both conference and office supplies expenses.

As the drop in operating income was greater than that in operating expenses, the cost-to-income ratio rose by 1.10 percentage points to 35.13%.

*Provisions for Impairment Losses*

| (In millions of RMB) | **Six months ended 30 June 2009** | Six months ended 30 June 2008 |
|---|---|---|
| **Loans and advances to customers** | **10,274** | 11,458 |
| **Investments** | **2,214** | 2,492 |
| Available-for-sale financial assets | **1,825** | 2,139 |
| Held-to-maturity investments | **397** | 989 |
| Debt securities classified as receivables | **(8)** | (636) |
| **Fixed assets** | **–** | 21 |
| **Others** | **331** | (65) |
| **Total provisions for impairment losses** | **12,819** | 13,906 |

In the first half of 2009, the provisions for impairment losses totalled RMB12,819 million, a decrease of RMB1,087 million over the same period last year. In this amount, provisions for impairment losses on loans and advances to customers were RMB10,274 million; those on investments were RMB2,214 million; provisions for impairment losses on other assets were RMB331 million, in which those on repossessed assets were RMB89 million.

Provisions for impairment losses on loans and advances to customers

| | **Six months ended 30 June 2009** | | | |
|---|---|---|---|---|
| | **Allowances for loans and advances which are collectively assessed** | **Allowances for impaired loans and advances** | | |
| (In millions of RMB) | | **which are collectively assessed** | **which are individually assessed** | **Total** |
| As at 1 January | **54,122** | **5,698** | **50,548** | **110,368** |
| Charge for the period | **8,728** | **17** | **7,700** | **16,445** |
| Release during the period | **–** | **–** | **(6,171)** | **(6,171)** |
| Unwinding of discount | **–** | **–** | **(707)** | **(707)** |
| Transfers out | **–** | **(4)** | **(155)** | **(159)** |
| Write-offs | **–** | **(228)** | **(3,479)** | **(3,707)** |
| Recoveries | **–** | **12** | **124** | **136** |
| As at 30 June | **62,850** | **5,495** | **47,860** | **116,205** |

During the first half of 2009, the provisions for impairment losses on loans and advances to customers dropped by RMB1,184 million. Excluding the provisions for impairment losses of RMB3,486 million as a result of last year's earthquake disaster, the provisions for impairment losses on loans and advances to customers would have increased by RMB2,302 million over the same period last year. As at 30 June 2009, the allowances for impairment losses on loans and advances to customers increased by RMB5,837 million to RMB116,205 million over the end of last year, while the ratio of allowances to non-performing loans (NPLs) was 150.51%, up 18.93 percentage points over the end of 2008.

#### Provisions for impairment losses on investments

For the first half of 2009, provisions for impairment losses on investments decreased by RMB278 million. In this amount, the provisions for impairment losses on available-for-sale financial assets and those on held-to-maturity debt securities decreased by RMB314 million and RMB592 million respectively over the same period last year. This was mainly because as the US economic recession slowed down its pace and the foreign currency bond market began to bottom out, the Group substantially reduced its holdings of foreign currency debt securities. Release from allowances for impairment losses on debt securities classified as receivables decreased by RMB628 million compared to the same period last year, as a bond issued by a non-bank financial institution had been fully recovered in the first half of 2008.

### *Income Tax*

In the first half of 2009, the Group's income tax dropped by RMB335 million to RMB16,628 million. The Group's effective income tax rate was 22.94%, 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.

## Financial Position Analysis

### *Assets*

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

| | **As at 30 June 2009** | | As at 31 December 2008 | |
|---|---|---|---|---|
| (In millions of RMB, except percentages) | **Amount** | **% of total** | Amount | % of total |
| Gross loans and advances to customers | **4,525,357** | | 3,793,943 | |
| Allowances for impairment losses on loans | **(116,205)** | | (110,368) | |
| Net loans and advances to customers | **4,409,152** | **48.39** | 3,683,575 | 48.75 |
| Investment securities[1] | **2,276,124** | **24.98** | 2,144,439 | 28.38 |
| Cash and deposits with central banks | **1,262,352** | **13.86** | 1,247,450 | 16.51 |
| Financial assets held under resale agreements | **868,452** | **9.53** | 208,548 | 2.76 |
| Deposits and placements with banks and non-bank financial institutions | **87,963** | **0.97** | 49,932 | 0.66 |
| Interest receivable | **39,778** | **0.44** | 38,317 | 0.51 |
| Trading financial assets | **37,938** | **0.42** | 50,309 | 0.67 |
| Other assets[2] | **128,412** | **1.41** | 132,882 | 1.76 |
| **Total assets** | **9,110,171** | **100.00** | 7,555,452 | 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 associates and jointly controlled entities, fixed assets, long-term lease prepayments, intangible assets, goodwill, deferred tax assets and other assets.

As at 30 June 2009, the Group's total assets amounted to RMB9,110,171 million, an increase of RMB1,554,719 million, or 20.58%, over the end of 2008. Gross loans and advances to customers grew by RMB731,414 million, or 19.28%, as the Group leveraged on its plenty reserves of high-quality projects and extensive branch and customer resources to increase lending to major customers and key industries while effectively controlling risk, against the backdrop of the government's macroeconomic policies of maintaining economic growth and boosting domestic demand. Investment securities increased by RMB131,685 million, or 6.14%, mainly as a result of the increase in debt securities issued by the government and the PBC in held-to-maturity investments. Financial assets held under resale agreements went up 316.43% over the end of last year to RMB659,904 million, with its proportion in total assets up 6.77 percentage points to 9.53%. It was mainly because the Group increased bonds and bills held under resale agreements.

Loans and advances to customers

| | **As at 30 June 2009** | | As at 31 December 2008 | |
|---|---|---|---|---|
| (In millions of RMB, except percentages) | **Amount** | **% of total** | Amount | % of total |
| **Corporate loans** | **3,204,184** | **70.81** | 2,689,784 | 70.90 |
| Short-term loans within 1 year | **953,678** | **21.08** | 855,397 | 22.55 |
| Medium to long-term loans | **2,250,506** | **49.73** | 1,834,387 | 48.35 |
| **Personal loans** | **948,448** | **20.96** | 821,531 | 21.65 |
| Residential mortgage loans | **714,923** | **15.80** | 603,147 | 15.90 |
| Personal consumer loans | **83,127** | **1.84** | 74,964 | 1.98 |
| Other loans[1] | **150,398** | **3.32** | 143,420 | 3.77 |
| **Discounted bills** | **251,726** | **5.56** | 163,161 | 4.30 |
| **Overseas operations** | **120,999** | **2.67** | 119,467 | 3.15 |
| **Gross loans and advances to customers** | **4,525,357** | **100.00** | 3,793,943 | 100.00 |

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

As at 30 June 2009, the Group's gross loans and advances to customers amounted to RMB4,525,357 million, an increase of RMB731,414 million, or 19.28%, over the end of 2008. Taking advantage of the government's proactive fiscal policy and moderately loose monetary policy, the Group took initiatives to adjust its credit structure, and well met the needs of its key customers and its strategic products growth.

Corporate loans reached RMB3,204,184 million, an increase of RMB514,400 million, or 19.12%, over the end of 2008. In this amount, infrastructure loans rose by RMB288,424 million to RMB1,476,911 million. The increase in infrastructure loans accounted for 56.07% of corporate loan growth. This was mainly due to the robust demand for infrastructure loans against the backdrop of the government's economic stimulus package. The Group's small business loans grew by RMB60,700 million, or 12.43%, over the end of last year.

Personal loans increased by RMB126,917 million, or 15.45%, to RMB948,448 million, accounting for 20.96% of the gross loans and advances to customers, 0.69 percentage points lower than at the end of last year. In this amount, the residential mortgage loans continued to lead the domestic market, with an increase of RMB111,776 million, or 18.53%; personal consumer loans rose by RMB8,163 million, or 10.89%; other loans rose by RMB6,978 million, or 4.87%, mainly due to the growth of credit card loans and personal business loans.

The balance of discounted bills increased by RMB88,565 million, or 54.28%, over the end of last year to RMB251,726 million, as the Group tried to meet the bill financing needs of high-quality large customers and small to medium-sized corporate customers.

*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 30 June 2009** | | As at 31 December 2008 | |
|---|---|---|---|---|
| (In millions of RMB, except percentages) | **Amount** | **% of total** | Amount | % of total |
| Unsecured loans | **1,233,515** | **27.26** | 947,785 | 24.98 |
| Guaranteed loans | **964,320** | **21.31** | 811,228 | 21.38 |
| Loans secured by tangible assets other than monetary assets | **1,899,318** | **41.97** | 1,650,208 | 43.50 |
| Loans secured by monetary assets | **428,204** | **9.46** | 384,722 | 10.14 |
| **Gross loans and advances to customers** | **4,525,357** | **100.00** | 3,793,943 | 100.00 |

*Distribution of change in loans and advances to customers by industry*

The following table sets forth the distribution of change in loans and advances to customers by industries in the reporting period compared to the end of last year.

| (In millions of RMB) | Change | % of total change |
|---|---|---|
| **Corporate loans** | **514,400** | **70.33** |
| Leasing and commercial services | **128,059** | **17.51** |
| — commercial services | **127,831** | **17.48** |
| Manufacturing | **99,223** | **13.57** |
| Water, environment and public utilities management | **61,622** | **8.43** |
| Transportation, storage and postal services | **60,339** | **8.25** |
| Production and supply of electric power, gas and water | **43,319** | **5.92** |
| Real estate | **26,357** | **3.60** |
| Wholesale and retail trade | **21,226** | **2.90** |
| Education | **12,547** | **1.72** |
| Construction | **9,507** | **1.30** |
| Mining | **6,014** | **0.82** |
| — Exploration of petroleum and natural gas | **(9,389)** | **(1.28)** |
| Telecommunications, computer services and software | **5,037** | **0.69** |
| — Telecommunications and other information transmission services | **4,702** | **0.64** |
| Others | **41,150** | **5.62** |
| **Personal loans** | **126,917** | **17.35** |
| **Discounted bills** | **88,565** | **12.11** |
| **Overseas operations** | **1,532** | **0.21** |
| **Total** | **731,414** | **100.00** |

Investments

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

| (In millions of RMB, except percentages) | **As at 30 June 2009** | | As at 31 December 2008 | |
|---|---|---|---|---|
| | **Amount** | **% of total** | Amount | % of total |
| Held-to-maturity investments | **1,217,773** | **52.62** | 1,041,783 | 47.47 |
| Available-for-sale financial assets | **572,165** | **24.73** | 550,838 | 25.10 |
| Debt securities classified as receivables | **486,186** | **21.01** | 551,818 | 25.14 |
| Trading financial assets | **37,938** | **1.64** | 50,309 | 2.29 |
| **Total investments** | **2,314,062** | **100.00** | 2,194,748 | 100.00 |

As at 30 June 2009, total investments increased by RMB119,314 million to RMB2,314,062 million compared to the end of 2008. Held-to-maturity investments increased by RMB175,990 million over the end of 2008, mainly as a result of the increase in debt securities issued by the government and the PBC. Available-for-sale financial assets increased by RMB21,327 million, largely because of increased holdings of bonds issued by governments and state-owned enterprises. Receivables dropped by RMB65,632 million over the end of 2008, mainly because a non-negotiable bill with a face value of RMB63,354 million issued by the PBC specifically to China Construction Bank had been fully repaid in June 2009. Trading financial assets decreased by RMB12,371 million, or 24.59%, over the end of 2008, primarily due to the reduction in debt securities held for trading purposes.

*Debt securities investments*

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

| (In millions of RMB, except percentages) | **As at 30 June 2009** | | As at 31 December 2008 | |
|---|---|---|---|---|
| | **Amount** | **% of total** | Amount | % of total |
| Debt securities investments in RMB | **2,222,660** | **97.07** | 2,068,230 | 95.04 |
| Debt securities investments in foreign currency | **67,012** | **2.93** | 107,890 | 4.96 |
| **Total debt securities investments** | **2,289,672** | **100.00** | 2,176,120 | 100.00 |

Debt securities investments in foreign currency

The Group attached great importance to credit risk control on foreign currency debt securities investments. It downsized investment portfolio and reduced holdings of high-risk debt securities. As at 30 June 2009, the carrying amount of foreign currency debt securities investment portfolio held by the Group was US$9,811 million (or RMB67,012 million), representing a decrease of US$5,985 million (or RMB40,878 million) over the end of 2008; the allowances for impairment losses on such securities totalled US$2,387 million (or RMB16,305 million).

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

| (In millions of US dollars) | Allowances for impairment losses | Carrying amount[1] |
|---|---|---|
| **US sub-prime mortgage debts** | 275 | 122 |
| First lien debt securities | 193 | 118 |
| Second lien debt securities | 82 | 4 |
| **Related residential mortgage collateralised debt obligations (CDO)** | 453 | — |
| **Total** | 728 | 122 |

1. This represents carrying amount after deducting the allowances for impairment losses.

As at 30 June 2009, the carrying amount of US sub-prime mortgage loan backed securities held by the Group was US$122 million (or RMB836 million), accounting for 1.25% of the foreign currency debt securities investment portfolio. The allowances for impairment losses on such securities totalled US$728 million (or RMB4,973 million).

As at 30 June 2009, the carrying amount of the Alt-A bonds held by the Group was US$215 million (or RMB1,466 million), accounting for 2.19% of the foreign currency debt securities investment portfolio. The allowances for impairment losses on such securities totalled US$309 million (or RMB2,112 million).

Given the credit profile and market factors of the above debt securities, the Group had made prudent provisions for impairment losses on them. 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 a significant effect on the Group's earnings.

The Group fully provided for the debt securities related to Lehman Brothers Holdings Inc of US$190 million (or RMB1,301 million). The Group will keep a close eye on the development of relevant events, and reduce its holdings of these debt securities at appropriate market time.

As at 30 June 2009, the carrying amount of the securities related to Fannie Mae and Freddie Mac held by the Group was US$610 million (or RMB4,167 million). Principal repayments and interest due on these debt securities had been received.

### Interest receivable

As at 30 June 2009, the Group's interest receivable was RMB39,778 million, an increase of RMB1,461 million, or 3.81%, over the end of 2008. Allowances for impairment losses on interest receivable of RMB1 million had been 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 30 June 2009 | | As at 31 December 2008 | |
|---|---|---|---|---|
| (In millions of RMB, except percentages) | **Amount** | **% of total** | Amount | % of total |
| Deposits from customers | **7,610,022** | **88.45** | 6,375,915 | 89.96 |
| Deposits and placements from banks and non-bank financial institutions | **724,034** | **8.42** | 490,572 | 6.92 |
| Financial assets sold under repurchase agreements | **482** | **0.01** | 864 | 0.01 |
| Debt securities issued | **96,635** | **1.12** | 53,810 | 0.76 |
| Other liabilities[1] | **172,464** | **2.00** | 166,729 | 2.35 |
| **Total liabilities** | **8,603,637** | **100.00** | 7,087,890 | 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 30 June 2009, the Group's total liabilities amounted to RMB8,603,637 million, an increase of RMB1,515,747 million, or 21.39%, over the end of 2008. Deposits from customers, which remained the most important source of the Group's funding, grew by RMB1,234,107 million, or 19.36%. Deposits from customers accounted for 88.45% of the total liabilities, a decrease of 1.51 percentage points. Deposits and placements from banks and non-bank financial institutions increased by RMB233,462 million, or 47.59%, with their proportion in total liabilities up 1.50 percentage points to 8.42%. This was mainly because the deposits from securities brokerages and funds rose substantially in line with the warming up of capital market. Financial assets sold under repurchase agreements decreased by RMB382 million over the end of last year, mainly because the repos conducted with banks shrank with the Group's ample liquidity. Debt securities issued increased by RMB42,825 million, mainly because the Bank issued subordinated bonds with a face value of RMB40 billion in the interbank bond market in February 2009.

Deposits from customers

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

| (In millions of RMB, except percentages) | As at 30 June 2009 Amount | As at 30 June 2009 % of total | As at 31 December 2008 Amount | As at 31 December 2008 % of total |
|---|---|---|---|---|
| **Corporate deposits** | **4,066,687** | **53.44** | 3,337,046 | 52.33 |
| Demand deposits | **2,620,747** | **34.44** | 2,229,910 | 34.97 |
| Time deposits | **1,445,940** | **19.00** | 1,107,136 | 17.36 |
| **Personal deposits** | **3,464,878** | **45.53** | 2,967,747 | 46.55 |
| Demand deposits | **1,296,031** | **17.03** | 1,133,449 | 17.78 |
| Time deposits | **2,168,847** | **28.50** | 1,834,298 | 28.77 |
| **Overseas operations** | **78,457** | **1.03** | 71,122 | 1.12 |
| **Total deposits from customers** | **7,610,022** | **100.00** | 6,375,915 | 100.00 |

As at 30 June 2009, the Group's deposits from customers grew by RMB1,234,107 million to RMB7,610,022 million, representing an increase of 19.36%. Corporate deposits increased by 21.86%, against the 16.75% increase in personal deposits. The proportion of corporate deposits in total deposits from customers thus increased by 1.11 percentage points to 53.44%, thanks to improved financial conditions of enterprises with the recovery of domestic economy. Domestic time deposits rose by 22.89%, higher than the 16.45% increase in domestic demand deposits. The proportion of domestic time deposits in total deposits from customers thus rose by 1.37 percentage points to 47.50%.

### *Shareholders' Equity*

| (In millions of RMB) | **As at 30 June 2009** | As at 31 December 2008 |
|---|---|---|
| Share capital | **233,689** | 233,689 |
| Capital reserve | **90,241** | 90,241 |
| Investment revaluation reserve | **13,600** | 11,156 |
| Surplus reserve | **26,922** | 26,922 |
| General reserve | **46,658** | 46,628 |
| Retained earnings | **95,809** | 59,593 |
| Exchange reserve | **(2,143)** | (2,263) |
| **Equity attributable to shareholders of the Bank** | **504,776** | 465,966 |
| Minority interests | **1,758** | 1,596 |
| **Total equity** | **506,534** | 467,562 |

As at 30 June 2009, the Group's total equity reached RMB506,534 million, an increase of RMB38,972 million compared to the end of 2008. The ratio of total equity to total assets for the Group was 5.56%, a decrease of 0.63 percentage points compared to the end of 2008.

### *Capital Adequacy Ratio*

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

| (In millions of RMB, except percentages) | **As at 30 June 2009** | As at 31 December 2008 |
|---|---|---|
| **Core capital adequacy ratio** | **9.30%** | 10.17% |
| **Capital adequacy ratio** | **11.97%** | 12.16% |
| **Components of capital base** | | |
| Core capital: | | |
| Share capital | **233,689** | 233,689 |
| Capital reserve, investment revaluation reserve and exchange reserve | **83,082** | 83,202 |
| Surplus reserve and general reserve | **73,580** | 73,550 |
| Retained earnings | **69,764** | 39,316 |
| Minority interests | **1,758** | 1,596 |
| | **461,873** | 431,353 |
| Supplementary capital: | | |
| General provisions for doubtful debts | **45,461** | 38,110 |
| Positive changes in fair value of available-for-sale financial assets and trading financial instruments | **10,596** | 8,684 |
| Long-term subordinated bonds | **80,000** | 40,000 |
| | **136,057** | 86,794 |
| Total capital base before deductions | **597,930** | 518,147 |
| Deductions: | | |
| Goodwill | **(1,525)** | (1,527) |
| Unconsolidated equity investments | **(7,251)** | (5,682) |
| Others | **(3,664)** | (522) |
| **Total capital base after deductions** | **585,490** | 510,416 |
| **Risk-weighted assets** | **4,889,313** | 4,196,493 |

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 *Administrative Measures for Capital Adequacy Ratios of Commercial Banks* and related regulations promulgated by the CBRC. As at 30 June 2009, the Group's capital adequacy ratio and core capital adequacy ratio were 11.97% and 9.30% respectively, declining by 0.19 and 0.87 percentage points respectively, over the end of 2008.

The capital adequacy ratio decreased because the growth rate of risk-weighted assets exceeded that of total capital base after deductions. Due to the growth of on-balance sheet assets and the rapid expansion of off-balance sheet business, risk-weighted assets increased by RMB692,820 million, or 16.51%, compared to the end of 2008. Total capital base after deductions increased by RMB75,074 million, or 14.71%, compared to the end of 2008, in which supplementary capital grew by RMB49,263 million, mainly because the Bank issued subordinated bonds of RMB40 billion in the national interbank bond market in February 2009.

## 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 loans.

| | **As at 30 June 2009** | | As at 31 December 2008 | |
|---|---|---|---|---|
| (In millions of RMB, except percentages) | **Amount** | **% of total** | Amount | % of total |
| Normal | **4,246,477** | **93.83** | 3,492,961 | 92.07 |
| Special mention | **201,672** | **4.46** | 217,100 | 5.72 |
| Substandard | **27,280** | **0.60** | 35,105 | 0.93 |
| Doubtful | **41,580** | **0.92** | 39,862 | 1.05 |
| Loss | **8,348** | **0.19** | 8,915 | 0.23 |
| **Gross loans and advances to customers** | **4,525,357** | **100.00** | 3,793,943 | 100.00 |
| **Non-performing loans** | **77,208** | | 83,882 | |
| **Non-performing loan ratio** | | **1.71** | | 2.21 |

In the first half of 2009, the Group stepped up credit structure adjustments, strengthened following-up management on early warning signs, enhanced the level of post-lending management, and improved its risk monitoring and early warning mechanism for lending business. It closely monitored large special-mention loans and NPLs, and strengthened the mitigation of the associated risks. As a result, NPLs fell both in amount and ratio. As at 30 June 2009, the Group's NPLs amounted to RMB77,208 million, a decrease of RMB6,674 million over the end of 2008, while the NPL ratio dropped by 0.50 percentage points to 1.71%. Meanwhile, the proportion of special-mention loans dropped by 1.26 percentage points to 4.46%.

### *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 30 June 2009** | | | As at 31 December 2008 | | |
|---|---|---|---|---|---|---|
| (In millions of RMB, except percentages) | **Loans** | **NPLs** | **NPL ratio (%)** | Loans | NPLs | NPL ratio (%) |
| **Corporate loans** | **3,204,184** | **67,918** | **2.12** | 2,689,784 | 74,430 | 2.77 |
| Short-term loans | **953,678** | **35,657** | **3.74** | 855,397 | 37,700 | 4.41 |
| Medium to long-term loans | **2,250,506** | **32,261** | **1.43** | 1,834,387 | 36,730 | 2.00 |
| **Personal loans** | **948,448** | **8,292** | **0.87** | 821,531 | 8,840 | 1.08 |
| Residential mortgage loans | **714,923** | **4,241** | **0.59** | 603,147 | 4,931 | 0.82 |
| Personal consumer loans | **83,127** | **1,577** | **1.90** | 74,964 | 1,685 | 2.25 |
| Other loans[1] | **150,398** | **2,474** | **1.64** | 143,420 | 2,224 | 1.55 |
| **Discounted bills** | **251,726** | **—** | **—** | 163,161 | — | — |
| **Overseas operations** | **120,999** | **998** | **0.82** | 119,467 | 612 | 0.51 |
| **Total** | **4,525,357** | **77,208** | **1.71** | 3,793,943 | 83,882 | 2.21 |

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

As at 30 June 2009, the NPL ratio for corporate loans dropped by 0.65 percentage points to 2.12% compared to the end of 2008, and that for personal loans decreased by 0.21 percentage points to 0.87%. The NPL ratio for overseas operations rose slightly due to the global financial crisis.

### *Distribution of Loans and NPLs by Industry*

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

| (In millions of RMB, except percentages) | As at 30 June 2009 Loans | % of total | NPLs | NPL ratio (%) | As at 31 December 2008 Loans | % of total | NPLs | NPL ratio (%) |
|---|---|---|---|---|---|---|---|---|
| **Corporate loans** | **3,204,184** | **70.81** | **67,918** | **2.12** | 2,689,784 | 70.90 | 74,430 | 2.77 |
| Manufacturing | **762,573** | **16.85** | **24,049** | **3.15** | 663,350 | 17.48 | 23,793 | 3.59 |
| Production and supply of electric power, gas and water | **495,791** | **10.96** | **5,072** | **1.02** | 452,472 | 11.93 | 6,672 | 1.47 |
| Transportation, storage and postal services | **487,142** | **10.76** | **5,000** | **1.03** | 426,803 | 11.25 | 5,359 | 1.26 |
| Real estate | **355,738** | **7.86** | **12,088** | **3.40** | 329,381 | 8.68 | 15,387 | 4.67 |
| Leasing and commercial services | **263,805** | **5.83** | **1,629** | **0.62** | 135,746 | 3.58 | 3,429 | 2.53 |
| — Commercial services | **262,936** | **5.81** | **1,501** | **0.57** | 135,105 | 3.56 | 3,264 | 2.42 |
| Water, environment and public utilities management | **194,048** | **4.29** | **2,119** | **1.09** | 132,426 | 3.49 | 2,159 | 1.63 |
| Construction | **126,058** | **2.79** | **2,437** | **1.93** | 116,551 | 3.07 | 2,375 | 2.04 |
| Wholesale and retail trade | **123,816** | **2.74** | **8,708** | **7.03** | 102,590 | 2.70 | 7,704 | 7.51 |
| Mining | **96,513** | **2.13** | **431** | **0.45** | 90,499 | 2.39 | 479 | 0.53 |
| — Exploitation of petroleum and natural gas | **8,694** | **0.19** | **63** | **0.72** | 18,083 | 0.48 | 16 | 0.09 |
| Education | **91,417** | **2.02** | **1,123** | **1.23** | 78,870 | 2.08 | 1,179 | 1.49 |
| Telecommunications, computer services and software | **30,980** | **0.68** | **1,185** | **3.83** | 25,943 | 0.68 | 715 | 2.76 |
| — Telecommunications and other information transmission services | **28,300** | **0.63** | **209** | **0.74** | 23,598 | 0.62 | 328 | 1.39 |
| Others | **176,303** | **3.90** | **4,077** | **2.31** | 135,153 | 3.57 | 5,179 | 3.83 |
| **Personal loans** | **948,448** | **20.96** | **8,292** | **0.87** | 821,531 | 21.65 | 8,840 | 1.08 |
| **Discounted bills** | **251,726** | **5.56** | **—** | **—** | 163,161 | 4.30 | — | — |
| **Overseas operations** | **120,999** | **2.67** | **998** | **0.82** | 119,467 | 3.15 | 612 | 0.51 |
| **Total** | **4,525,357** | **100.00** | **77,208** | **1.71** | 3,793,943 | 100.00 | 83,882 | 2.21 |

In the first half of 2009, NPLs for wholesale and retail trade and manufacturing increased as affected by the global economic crisis.

*Rescheduled Loans and Advances to Customers*

The following table sets forth the Group's rescheduled loans and advances to customers as at the dates indicated.

| | **As at 30 June 2009** | | As at 31 December 2008 | |
|---|---|---|---|---|
| (In millions of RMB, except percentages) | **Amount** | **% of gross loans and advances** | Amount | % of gross loans and advances |
| **Rescheduled loans and advances to customers** | **3,444** | **0.08** | 3,376 | 0.09 |

As at 30 June 2009, rescheduled loans and advances to customers amounted to RMB3,444 million, an increase of RMB68 million over the end of last year; their proportion in gross loans and advances to customers dropped by 0.01 percentage points to 0.08%. Of these loans, those overdue for more than 90 days were RMB2,067 million, representing an increase of RMB871 million over the end of last year.

*Overdue Loans and Advances to Customers*

The following table sets forth the Group's overdue loans and advances to customers by overdue period as at the dates indicated.

| | **As at 30 June 2009** | | As at 31 December 2008 | |
|---|---|---|---|---|
| (In millions of RMB, except percentages) | **Amount** | **% of gross loans and advances** | Amount | % of gross loans and advances |
| Overdue for no more than 3 months | **30,088** | **0.66** | 39,014 | 1.03 |
| Overdue for 3 months to 1 year | **24,971** | **0.56** | 19,189 | 0.50 |
| Overdue for 1 to 3 years | **21,905** | **0.48** | 21,786 | 0.57 |
| Overdue for over 3 years | **17,001** | **0.38** | 18,065 | 0.48 |
| **Total overdue loans and advances to customers** | **93,965** | **2.08** | 98,054 | 2.58 |

## Analysis of Off-Balance Sheet Items

The Group's off-balance sheet items were mainly commitments and contingencies, which include credit commitments, operating lease commitments, capital commitments, underwriting obligations, redemption obligations, outstanding litigation and disputes, and contingent liabilities. Among these, credit commitments were the most significant component, with an amount of RMB1,696,045 million as at 30 June 2009.

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

There is no difference in the net profit for the six months ended 30 June 2009 or total equity as at 30 June 2009 between the Group's consolidated financial statements prepared under PRC GAAP and those prepared under IFRS.

## 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:

| (In millions of RMB, except percentages) | **Six months ended 30 June 2009** Amount | **Six months ended 30 June 2009** % of total | Six months ended 30 June 2008 Amount | Six months ended 30 June 2008 % of total |
|---|---|---|---|---|
| Corporate banking | **43,588** | **60.15** | 40,116 | 53.02 |
| Personal banking | **13,148** | **18.14** | 11,651 | 15.40 |
| Treasury business | **14,084** | **19.43** | 22,533 | 29.78 |
| Others and unallocated | **1,649** | **2.28** | 1,355 | 1.80 |
| **Profit before tax** | **72,469** | **100.00** | 75,655 | 100.00 |

### Corporate Banking

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

| (In millions of RMB, except percentages) | **Six months ended 30 June 2009** | Six months ended 30 June 2008 | **Change (%)** |
|---|---|---|---|
| Net interest income | **61,418** | 61,384 | 0.06 |
| Net fee and commission income | **9,988** | 7,864 | 27.01 |
| Other operating income | **84** | 107 | (21.50) |
| **Operating income** | **71,490** | 69,355 | 3.08 |
| Operating expenses | **(19,428)** | (19,875) | (2.25) |
| Provisions for impairment losses | **(8,474)** | (9,364) | (9.50) |
| **Profit before tax** | **43,588** | 40,116 | 8.65 |
| | **As at 30 June 2009** | As at 31 December 2008 | |
| **Segment assets** | **3,855,870** | 3,214,610 | 19.95 |

As a result of a 27.01% robust growth of net fee and commission income and a 9.50% decrease of provisions for impairment losses, profit before tax from corporate banking increased by 8.65% to RMB43,588 million, accounting for 60.15% of the Group's total profit before tax.

*Rapid growth of deposits and loans*

Corporate deposits surged by RMB729,641 million, or 21.86%, to RMB4,066,687 million compared to the end of 2008, while corporate loans rose by RMB514,400 million, or 19.12%, to RMB3,204,184 million.

*Effective adjustments to credit structure*

The Group increased lending to infrastructure, small and medium-sized enterprises, as well as agriculture, rural areas and farmers, and the new corporate loans mainly focused on industries benefiting from the government's investment stimulus packages and priority industries of the Group. The share of the manufacturing loans, which had a higher non-performing loan ratio, dropped by 0.63 percentage points to 16.85% compared to the end of 2008. Loans to industries that are not in line with the government's industrial policies and environmental policies, as well as those with excess capacity, high energy consumption and high pollution reduced by RMB29,431 million.

*Fast expansion of small enterprise loan business*

Small enterprise loans increased by RMB60,700 million, or 12.43%, over the end of 2008. The Bank set up an SME financial service department, with 104 specialised SME business operation centres based on the "Credit Factory" model. It also strengthened risk management by establishing special rating system and evaluation methods for small enterprises. The Bank improved its brand products such as "Easy Loan" and "Growing Path", and provided unsecured small-amount loans to small enterprises on a pilot basis.

*Significant growth of fee-based business*

In the first half of 2009, net fee and commission income from corporate banking grew by 27.01% over the same period of 2008 to RMB9,988 million, accounting for 42.64% of the Bank's net fee and commission income. Income from the Bank's traditional advantage products such as project cost advisory service, corporate RMB settlement service, and domestic guarantees made great contributions to the growth. Income from new products such as domestic factoring and syndicated loans surged by 505.98% and 159.69% respectively.

- *Notable expansion in institutional business*

  "Minben Tongda", a financial service product related to people's livelihood, was launched on a pilot basis and was well received by the community. The Bank had issued a total of 853,600 central budget civil cards, with 348,800 new cards issued in the first half of 2009. It also launched co-branded cards together with domestic social security departments to create a service platform between social security departments, the Bank, and the customers. Fees from "Safe Deal" transaction fund custody service rose by RMB499 million over the same period last year to RMB736 million. The Bank took the lead in domestic market by providing 18,158,200 customers with independent custodial services for securities settlement funds. It became the first domestic commercial bank to provide custodial services for A-share and B-share securities settlement funds simultaneously. The Bank provided fund transfer services for 130 futures companies, and recorded the highest number of contracted customers and the highest transfer volume in the market. The Bank maintained the largest market share in providing loan fund settlement agency services for China Development Bank.

- *Rapid progress in asset custodial service*

  In the first half of 2009, assets under custody grew by 23.45% to RMB777,592 million, in which the net value of securities investment funds under custody reached RMB540,341 million, and the net value of other assets under custody was RMB237,251 million. The number of securities investment funds that the Bank won approvals to provide custodial services was highest among its peers. Net value of enterprise annuities under custody achieved notable growth compared to the end of 2008.

- *Stable development of international business*

  As part of its ongoing trade finance innovation, the Bank successfully launched new risk-manageable trade finance products such as "Export Drawback Pool Financing" and "International Trade Supply Chain Financing" to help foreign trade enterprises tide over difficulties. International settlement volume was US$194,744 million, generating an income of RMB984 million.

## Personal Banking

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

| (In millions of RMB, except percentages) | **Six months ended 30 June 2009** | Six months ended 30 June 2008 | **Change (%)** |
|---|---|---|---|
| Net interest income | **30,290** | 28,387 | 6.70 |
| Net fee and commission income | **7,849** | 8,062 | (2.64) |
| Other operating income | **90** | 63 | 42.86 |
| **Operating income** | **38,229** | 36,512 | 4.70 |
| Operating expenses | **(23,332)** | (22,754) | 2.54 |
| Provisions for impairment losses | **(1,749)** | (2,107) | (16.99) |
| **Profit before tax** | **13,148** | 11,651 | 12.85 |
| | **As at 30 June 2009** | As at 31 December 2008 | |
| **Segment assets** | **965,459** | 863,351 | 11.83 |

Personal banking achieved profit before tax of RMB13,148 million with an increase of 12.85%, which accounted for 18.14% of the Group's total profit before tax, 2.74 percentage points higher than for the same period last year. The operating income of personal banking increased by 4.70% to RMB38,229 million, mainly as a result of an increase of RMB1,903 million in net interest income and a decrease of RMB358 million in provisions for impairment losses.

### *Rapid growth of personal deposits*

As a result of vigorous marketing campaigns in peak seasons to attract more funds and customers, personal deposits rose by RMB497,131 million, or 16.75%, to RMB3,464,878 million over the end of 2008. The number of individual customers with financial assets over RMB10 million grew by 44% compared to the end of 2008, while daily average financial assets increased by 46% compared to the same period last year.

*Steady growth of personal loans as a leader in residential mortgages*

Personal loans reached RMB948,448 million, an increase of RMB126,917 million compared to the end of last year. In this amount, residential mortgages rose by RMB111,776 million to RMB714,923 million, taking the lead among peers both in loan balance and growth. In line with the government's policy of supporting loans to rural areas, the Bank proactively pushed forward petty loans to farmers in Xinjiang and Heilongjiang on a pilot basis, with loan growth of RMB1,714 million.

*Steady progress of entrusted housing finance business*

Housing fund deposits grew by RMB6,257 million to RMB379,938 million, including provident housing fund deposits of RMB281,931 million, up RMB539 million over the end of 2008. Provident housing fund loans grew by RMB47,405 million to RMB336,372 million. The Bank ranked first among competitors in terms of shares of provident housing fund deposits and loans.

*Rapid expansion of bank card business*

The Bank had a total of 299 million debit cards in issuance, an increase of 27,997,700 cards over the end of 2008. Of these, the number of wealth management cards issued surged by 661,400 to 4,331,000. The spending amount via debit cards reached RMB316,776 million, up 49.25% over the same period last year, leading to an increase of 18.47% in the related fee-based income to RMB2,647 million. The number of credit cards issued rose by 3.23 million to 21.94 million; the increase in credit card loans led in peers and good asset quality was maintained.

## Treasury Business

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

| (In millions of RMB, except percentages) | **Six months ended 30 June 2009** | Six months ended 30 June 2008 | **Change (%)** |
|---|---|---|---|
| Net interest income | **9,714** | 20,861 | (53.43) |
| Net fee and commission income | **5,283** | 3,880 | 36.16 |
| Net trading gain | **306** | 836 | (63.40) |
| Net income arising from investment securities | **2,680** | 758 | 253.56 |
| Other net operating income/(loss) | **(134)** | 253 | (152.96) |
| **Operating income** | **17,849** | 26,588 | (32.87) |
| Operating expenses | **(1,642)** | (1,786) | (8.06) |
| Provisions for impairment losses | **(2,123)** | (2,269) | (6.43) |
| **Profit before tax** | **14,084** | 22,533 | (37.50) |
| | **As at 30 June 2009** | As at 31 December 2008 | |
| **Segment assets** | **4,162,256** | 3,358,278 | 23.94 |

In the first half of 2009, treasury business generated profit before tax of RMB14,084 million, a decrease of 37.50% over the same period last year. Net interest income dropped by 53.43% as a result of the decline in yields of debt securities investments, which offset the rapid growth of net fee and commission income and net income arising from investment securities.

### *Financial market business*

The Group proactively adjusted its investment portfolio management strategies. In the deployment of RMB funds, it made intensive analysis and quantitative research on securities value, made timely adjustments to asset disposition structure, actively conducted position trading of bonds, increased bond investments, and enhanced its influence upon market pricing. As for the foreign currency investment portfolios, in order to address the adverse impact of the global financial crisis, the Group prudently made impairment provisions for foreign currency bonds, continued to reduce risk exposures, and further downsized foreign currency portfolios.

The Bank's gold business grew rapidly. In personal account gold business, 251.97 tons of gold were traded, 4.7 times the trading volume for the same period last year, while 9.22 tons of gold were traded in physical gold business, up 90% over the same period last year. The Bank actively expanded the new area of gold leasing business, and improved the "Gold Information Channel" of its website to enhance customer service capability. The volume of customer-driven foreign exchange trading and foreign exchange purchases and sales reached US$98,300 million, while 65 batches of wealth management products were issued in the series of "Profit from Interest", "Harvest", "CCB Fortune", with proceeds of RMB89.9 billion.

*Investment banking*

By seizing business opportunities arising from industrial adjustments in domestic and overseas markets, the Bank expanded its investment banking business, reaping an income of RMB5,320 million, up 66.09% over the same period last year.

The Bank vigorously promoted long-term financial advisory services, innovative financial advisory services, and financial advisory services for project financing, and mergers and acquisitions, and made a total income of RMB4,040 million, an increase of 56.95% over the same period of 2008.

As for the underwriting of debt financing instruments, the Bank underwrote 11.5 batches of commercial paper with an amount of RMB31,590 million, up 68.03% over the same period last year, and 9.5 batches of medium-term notes with an amount of RMB55,480 million, up 382.39%. Income from debt securities underwriting rose by RMB270 million, or 281.25%, to RMB366 million.

A total of 213 batches of various wealth management products in the series of “Profit from Interest”, “CCB Fortune”, “Qiantu Wealth Management”, “Qianyuan”, “Open-end Asset Portfolio RMB Wealth Management Products”, were designed and issued, with total proceeds of RMB204.5 billion, generating an income of RMB485 million, an increase of RMB261 million, or 116.52%, over the same period last year. The Bank also pioneered the market by launching innovative wealth management products for infrastructure and alternative investments.

## Analysis of Geographical Segments

Yangtze River Delta, Pearl River Delta, and Bohai Rim are still the Group’s business focuses, altogether accounting for 55.99% of its deposits, 57.06% of its loans, and 50.80% of its profit before tax. As a result of the relative concentration of infrastructure projects, loans in Central and Western regions increased by 21.04% and 20.97% respectively, and these two regions contributed 30.83% of the Group’s profit before tax compared to 19.23% for the same period last year.

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

| | **Six months ended 30 June 2009** | | Six months ended 30 June 2008 | |
|---|---|---|---|---|
| (In millions of RMB, except percentages) | **Amount** | **% of total** | Amount | % of total |
| Yangtze River Delta | **14,609** | **20.16** | 15,840 | 20.94 |
| Bohai Rim | **12,370** | **17.07** | 10,892 | 14.39 |
| Central | **10,552** | **14.56** | 8,369 | 11.06 |
| Western | **11,791** | **16.27** | 6,178 | 8.17 |
| Pearl River Delta | **9,836** | **13.57** | 10,158 | 13.43 |
| Northeastern | **3,861** | **5.33** | 3,019 | 3.99 |
| Head office | **8,302** | **11.46** | 19,490 | 25.76 |
| Overseas | **1,148** | **1.58** | 1,709 | 2.26 |
| **Profit before tax** | **72,469** | **100.00** | 75,655 | 100.00 |

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

| (In millions of RMB, except percentages) | **As at 30 June 2009** Amount | % of total | As at 31 December 2008 Amount | % of total | **Change** | **% of total change** |
|---|---|---|---|---|---|---|
| Yangtze River Delta | **1,075,760** | **23.77** | 922,104 | 24.30 | 153,656 | 21.01 |
| Bohai Rim | **822,886** | **18.18** | 691,638 | 18.23 | 131,248 | 17.94 |
| Central | **735,147** | **16.25** | 607,335 | 16.01 | 127,812 | 17.47 |
| Western | **769,270** | **17.00** | 635,905 | 16.76 | 133,365 | 18.23 |
| Pearl River Delta | **683,713** | **15.11** | 544,999 | 14.36 | 138,714 | 18.97 |
| Northeastern | **283,081** | **6.26** | 233,468 | 6.15 | 49,613 | 6.78 |
| Head office | **34,501** | **0.76** | 39,027 | 1.03 | (4,526) | (0.62) |
| Overseas | **120,999** | **2.67** | 119,467 | 3.16 | 1,532 | 0.22 |
| **Gross loans and advances to customers** | **4,525,357** | **100.00** | 3,793,943 | 100.00 | 731,414 | 100.00 |

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

| (In millions of RMB, except percentages) | **As at 30 June 2009** Amount | % of total | As at 31 December 2008 Amount | % of total | **Change** | **% of total change** |
|---|---|---|---|---|---|---|
| Yangtze River Delta | **1,625,669** | **21.36** | 1,330,657 | 20.86 | 295,012 | 23.90 |
| Bohai Rim | **1,465,220** | **19.25** | 1,208,697 | 18.96 | 256,523 | 20.79 |
| Central | **1,336,695** | **17.57** | 1,101,653 | 17.28 | 235,042 | 19.04 |
| Western | **1,305,080** | **17.15** | 1,101,507 | 17.28 | 203,573 | 16.50 |
| Pearl River Delta | **1,170,786** | **15.38** | 974,942 | 15.29 | 195,844 | 15.87 |
| Northeastern | **569,830** | **7.49** | 483,733 | 7.59 | 86,097 | 6.98 |
| Head office | **58,284** | **0.77** | 103,604 | 1.62 | (45,320) | (3.67) |
| Overseas | **78,458** | **1.03** | 71,122 | 1.12 | 7,336 | 0.59 |
| **Deposits from customers** | **7,610,022** | **100.00** | 6,375,915 | 100.00 | 1,234,107 | 100.00 |

## Distribution Channels

The Group provides convenient and high quality banking services to its customers through its extensive branches, self-service equipment and electronic banking service platform.

At the end of June 2009, the Bank had 13,371 branches at various levels in Mainland China, including the head office, 38 tier-one branches, 295 tier-two branches, 7,013 sub-branches, 6,023 entities under the sub-branches and a specialised credit card centre of the head office. It had seven branches in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul and New York, a representative office in Sydney, and multiple subsidiaries, including CCB Asia, CCB International, CCB London, Sino-German Bausparkasse, CCB Principal Asset Management, and CCB Financial Leasing.

In June 2009, the Bank successfully opened a banking subsidiary — CCB London and a new branch in New York, marking a breakthrough in its global business strategy. It is also proceeding with related work to establish branches in Ho Chi Minh City, Vietnam, and Sydney, Australia. In May 2009, the Bank established Zhejiang Cangnan Jianxin Rural Bank Co. Ltd., the second rural bank it launched after Hunan Taojiang Jianxin Rural Bank Co. Ltd.

*Vigorous promotion of outlets building*. In the first half of 2009, the Bank embarked on a total of 1,112 branch outlet renovation projects, with its general outlet appearance notably improved. The differentiated service channels targeting at high net worth customers made further progress with the support of 2,198 personal finance centres, 109 wealth management centres, and three private banking centres. To expand the scope of customer services and offer more efficient banking services, the Bank operated 33,713 automatic teller machines (ATMs), representing an increase of 1,817 ATMs, or 5.70%, over the end of 2008.

*Continued branch transformation*. A total of 12,333 retail outlets, or 92% of all retail outlets, have shifted from a transaction and accounting focus to marketing service oriented function, with improved sales and service capabilities as well as greater customer satisfaction and market competitiveness.

*Sound and rapid expansion of electronic banking*. In the first half of 2009, the number of transactions through electronic banking to that through front desk was 64%. The Bank's online banking service had 32.63 million personal customers and 590 thousand corporate customers, with transaction volumes of RMB1.11 trillion and RMB10.15 trillion respectively. Online mobile phone banking service was provided to 8.87 million customers. Telephone banking business kept a sound development. Registered customers for telephone banking reached 46.93 million, up 36.06% over the same period last year, and the number of transactions reached 176.48 million, up 42.64% compared to the same period last year.

## RISK MANAGEMENT

In the first half of 2009, the Group continued to reinforce the reform of its risk management system. It refined its credit risk management policies, stepped up adjustments to credit structure, expedited IT system development and business process optimisation, tightened post-lending management, improved market risk management framework and policy system, and strengthened the fundamentals of operational risk management.

The Group expedited the centralisation of risk management in cities where tier-one branches are located, in order to develop a specialised and intensive risk management model for these city branches. It improved management resources allocation, and established a market risk management framework consistent with the business development level of tier-one branches.

Based on actual risk features of products and customers, the Group refined measurement methods for critical risk parameters; fully leveraged the role of economic capital in financial budgeting, credit decision-making, loan pricing, and performance appraisal, in order to improve its ability to balance risk and reward; improved industry risk limit management, and enhanced credit resources deployment efficiency by effectively incorporating risk concentration control and credit structure adjustments into capital return requirements.

The Group defined major tasks in the implementation of the New Basel Capital Accord, and set work plans and detailed requirements for rules making, IT systems and model development, and data governance. It promoted the use of a new generation customer rating model, and retail credit risk management tools were used more widely. The development of portfolio risk management system and collateral system progressed smoothly, and the market and operational risk information management systems are being developed in an orderly way.

## Credit Risk Management

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Group.

In the first half of 2009, the Group stepped up credit structure adjustments and tackled the impact of the economic downturn proactively. In line with the changing economic situation, it refined credit policies in good time, while strengthening post-lending management through its newly launched tracking and management system for corporate customers with early warning signs. It improved approval procedures and reinforced system development.

*Acceleration of credit structure adjustments and improvement of credit asset portfolios*. Following the Chinese government's policies of "maintaining growth, boosting domestic demand and adjusting structure", the Group stepped up credit structure adjustments. It adopted differentiated credit structure adjustment strategies (including promoting, securing, controlling, curtailing and exiting) for different regions, industries, customers, and products, and introduced guidelines on customer selection and credit structure adjustment policy for manufacturing industry, reflecting its industrial and regional priorities.

*Refinement of credit risk management policies in line with market changes*. A new authorisation scheme was introduced based on the business needs, risk exposures and management capabilities of respective branches. The Group also regulated credit extension and strengthened credit approval. In response to market changes, it specified management requirements for merger and acquisition loans and rescheduled loans, while regulating the credit extension to customers and projects related to government financing vehicles.

*Improved technical measures and strengthened post-lending management*. A corporate customer tracking and management system for customers with early warning signs was rolled out across the Bank, which put in place the mechanism to deal with problem customers, and improved self-assessment and processes for post-lending management. The Bank also optimised its personal loan collection system, which helped integrate information on monitoring, warning and collection of overdue loans and centralise collection management.

*Reinforcement of risk examination and control and strengthened NPL disposal*. The Bank examined exposures related to key customers in a timely manner. Focusing on customers with large special-mention loans and NPLs, it exploited repossession and other methods to step up NPL disposal and expedite fund recovery.

*Accelerated development and application of risk measurement tools*. The Bank continued to refine rating models for corporate customers. Rating models for general corporate customers, government agencies and legal person customers, financial institutions, and real estate entities were launched on a pilot basis. Scorecards for residential mortgages, credit card applications and behaviour were also widely used. The retail credit product management framework based on these scorecards was set up, and a rating system for small enterprises was promoted across the Bank.

*Concentration of Credit Risk*

In the first half of 2009, the loans to the largest single borrower of the Group accounted for 3.05% of its net capital, while those to the ten largest customers accounted for 18.90% of its net capital. Both complied with regulatory requirements. The loans to the ten largest customers amounted to RMB110,664 million, accounting for 2.45% of total loans and advances to customers.

Key Regulatory Indicators

| Key regulatory indicators | Regulatory standard | As at 30 June 2009 | As at 31 December 2008 |
|---|---|---|---|
| Ratio of loans to the largest single customer (%) | ≤10 | **3.05** | 3.68 |
| Ratio of loans to the ten largest customers (%) | ≤50 | **18.90** | 20.72 |

Concentration of Borrowers

The Group's ten largest single borrowers, as at the date indicated, are as follows:

| | | As at 30 June 2009 | |
|---|---|---|---|
| (In millions of RMB, except percentages) | **Industry** | **Amount** | **% of total loans** |
| Customer A | Railway transport | **17,851** | **0.39** |
| Customer B | Telecommunications and other information transmission services | **13,800** | **0.31** |
| Customer C | Public utilities management | **11,711** | **0.26** |
| Customer D | Road transport | **11,591** | **0.26** |
| Customer E | Public utilities management | **10,500** | **0.23** |
| Customer F | Railway transport | **10,100** | **0.22** |
| Customer G | Road transport | **9,220** | **0.20** |
| Customer H | Production and supply of electric power and heat | **8,861** | **0.20** |
| Customer I | Road transport | **8,530** | **0.19** |
| Customer J | Real estate | **8,500** | **0.19** |
| **Total** | | **110,664** | **2.45** |

## Liquidity Risk Management

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due.

The Group's liquidity management aims to maintain a reasonable level of liquidity, ensuring smooth payment and settlement while complying with regulatory requirements. The Bank also strives to deploy its funds in a reasonable and effective way so as to enhance the yields.

In the first half of 2009, the broad money supply grew by 28.5%, with ample liquidity in commercial banks. By refining existing rules, strengthening daily fund deployment with early planning, the Group maintained reasonable surplus reserve rate and guaranteed smooth payment and settlement operations.

To address excess liquidity and raise yields, the Group timely adjusted authorisation limits for balances with other banks and encouraged wider use of funds through multiple channels. The Bank and the PBC entered into a pledge agreement for the small-sum payment system. Under the agreement, the Bank is able to carry out settlement in the PBC's small-sum payment system with its held-to-maturity debt securities as pledge. This will facilitate settlement and reduce surplus reserve.

The analysis of the remaining maturity of the Group's assets and liabilities as at the balance sheet date is set out below:

| (In millions of RMB) | Undated | Repayment on demand | Within 1 month | Between 1 and 3 months | Between 3 months and 1 year | Between 1 and 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|---|---|
| Net position as at 30 June 2009 | 1,287,024 | (4,705,836) | 286,898 | 622,257 | (149,198) | 1,522,282 | 1,643,107 | 506,534 |
| Net position as at 31 December 2008 | 1,112,972 | (3,597,916) | (80,320) | (64,323) | 280,826 | 1,426,995 | 1,389,328 | 467,562 |

The Group regularly monitors the gap between its assets and liabilities across all businesses and various maturities in order to assess its liquidity risk against specific maturity periods. As at 30 June 2009, the accumulated gap of various maturities of the Group was RMB506,534 million, an increase of RMB38,972 million compared to the end of last year. Despite the negative gap for repayment on demand of RMB4,705,836 million, the Group enjoyed a stable funding source with its strong and expansive deposit customer base and the relatively high proportion of core demand deposits.

## Market Risk Management

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

*Improving market risk management system*. The Bank specified procedures for identifying, measuring, monitoring, controlling and reporting market risk; stepped up centralised management of market risks for overseas branches.

*Setting market risk tolerance level*. The Bank specified economic capital needed by market risk, potential loss of banking book, and maximum loss rate of RMB and foreign currency investment portfolios in line with the nature, scale, complexity and risk features of related businesses, and ensured that related business risks are tolerable.

*Strengthening market risk limit system management*. The Bank put in place a limit management system that combined rigid control with timely warning by reviewing its market risk limit management system, improving business classification and increasing limit varieties.

*Refining provisioning system for debt securities investment*. The Bank further specified the responsibilities of provisioning for debt securities investment and regulated the scope, methods and procedures.

*Reinforcing risk management for customer-driven derivative transactions*. The Bank strictly controlled types and growth rates of customer-driven derivative transactions, secured collaterals for existing transactions, strengthened market revaluation, and provided customers with timely risk alert services.

### *Value at Risk Analysis*

The Bank performs value at risk (VaR) analysis on its trading portfolios and available-for-sale debt securities to measure and monitor potential losses on positions due to movements in interest rates, exchange rates and prices. The Bank calculates the VaR on foreign currency investment portfolios on a daily basis and the VaR on RMB investment portfolios at least once a week (with 99% confidence level and one-day holding period). As at the balance sheet date and for the respective period, the Bank's VaRs on trading portfolios and available-for-sale debt securities were as follows:

| | **For the six months ended 30 June 2009** | | | | For the six months ended 30 June 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| (In millions of RMB) | **Period-end** | **Average** | **Maximum** | **Minimum** | Period-end | Average | Maximum | Minimum |
| RMB trading portfolio | **17** | **16** | **21** | **8** | 27 | 16 | 27 | 5 |
| RMB available-for-sale debt securities | **712** | **522** | **712** | **302** | 466 | 440 | 532 | 287 |
| Foreign currency trading portfolio | **463** | **850** | **1,149** | **460** | 196 | 202 | 232 | 127 |
| Foreign currency available-for-sale debt securities | **161** | **167** | **330** | **106** | 475 | 554 | 676 | 465 |

### *Interest Rate Risk Management*

The primary source of interest rate risk is the repricing risk caused by the mismatches between the repricing dates of interest rate sensitive assets and liabilities.

The Group manages interest rate risk by monitoring and forecasting changes in net interest income under different interest rate scenarios. The Group is committed to controlling interest rate risk within the tolerable level and minimizing the decrease of net interest income as a result of changes in interest rates in line with the Group's risk management level and risk preferences after weighing the cost of risk mitigation measures.

In addressing the changes in monetary policies and financial market, the Group adjusted and refined the internal and external pricing system on a timely basis to control interest costs and raise asset yields; it appropriately adjusted the term structure of interest rate sensitive assets and liabilities in attempt to stabilise the net interest margin despite the narrowing nominal interest spread.

The Group regularly measures the interest rate sensitivity repricing gap, assesses the impact of interest rate movements upon its net interest income under various interest rate scenarios, and conducts periodic stress testing. This provides guidance for adjustments to the repricing term structure of the Group's interest-earning assets and interest-bearing liabilities. The analysis of the next expected repricing dates (or maturity dates, whichever are earlier) of the Group's assets and liabilities as at the balance sheet date is set out below:

| (In millions of RMB) | **Total** | **Non-interest-bearing** | **Less than 3 months** | **Between 3 months and 1 year** | **Between 1 and 5 years** | **More than 5 years** |
|---|---|---|---|---|---|---|
| Asset-liability gap as at 30 June 2009 | **506,534** | **53,271** | **(2,011,521)** | **2,039,979** | **81,938** | **342,867** |
| Asset-liability gap as at 31 December 2008 | **467,562** | **35,774** | **(1,635,631)** | **1,446,950** | **254,594** | **365,875** |

### *Foreign Exchange Risk Management*

The Group is exposed to foreign exchange rate risks primarily because it holds deposits, loans, marketable securities and financial derivatives that are denominated in currencies other than RMB. The risks comprise trading exposure and structural exposure.

The Group controls the trading exposure from customer-driven and proprietary foreign exchange purchases and sales, foreign exchange trading and foreign exchange derivative transactions by setting trading limits.

The Group mitigates its structural exposure by matching assets and liabilities based on the currency involved. It matches amounts and maturities of lending and borrowing on a currency-by-currency basis where possible. Open positions are hedged with financial instruments such as spot and forward contracts as well as swaps and options.

## Operational Risk Management

Operational risk is defined as the risk of losses resulting from inadequate or flawed internal processes, personnel and systems, or from external events.

The Bank enhanced planning for operational risk self-assessment and laid down a master scheme for conducting self-assessment at the head office business departments and first-tier branches. The Bank focused on the key points and strengthened the rectification. In revising the key operational risk points for monitoring on a dynamic basis, the Group incorporated monitoring of operational risk arising from self-service equipment management and managers' duty fulfillment, which covered tellers, branch outlets and vaults. In introducing pilot management of incompatible positions, the Bank regulated centralised management of these positions and focused on addressing problems of position separation and deficient checks and balances.

## Internal Audit

The Group adheres to the independent and vertically managed internal audit system, and employs scientific audit concepts and methodologies.

In the first half of 2009, the Group conducted 11 systemic internal audit projects which covered guaranteed corporate loans, customer-driven foreign currency trading, capital expenditure, branch IT operation, tier-two branches/sub-branches comprehensive business operation and management, wealth management business, and fundamental management. The Group also formulated the *Guidelines on Management Consultancy Audit* to enhance its guidance on the management consultancy audit. The Group refined standards of the internal audit knowledge base and maintenance requirements, and increased the professional exchange of research achievements. The Group promoted off-site audit techniques by establishing a professional off-site audit team and organising qualification tests for off-site audit system application capability.

## PROSPECTS

The Group is facing a string of uncertainties brought about by market conditions: as the extent of the domestic rebound is as yet unknown, the rapid growth of lending may lead to greater pressure on controlling NPLs; fund yields will be a major liquidity management issue as liquidity becomes abundant thanks to the loosing of monetary policy; the central bank's asymmetric interest rate cuts and intensified peer competition may result in weaker pricing power and pressure on net interest spread of banks; volatility in capital market may impede growth in fee-based and liability businesses; while movements in exchange rates and interest rates will also require better risk management and pricing ability.

The Group has found commercial opportunities in the turbulent environment: the government policies aiming at "boosting domestic demand and maintaining growth" are favourable to credit structure adjustments; consumer loans and residential mortgages will grow as consumer spending surges and the housing market settles down; the recovery of the capital market will drive growth in fee-based and other related business, and the development of bond market, in particular, will help improve bond underwriting and debt securities investments. The loosened environment for comprehensive operation provides market chances to develop innovative businesses. In addition, the international banking industry has yet to revive, providing an opportune moment to push forward our overseas strategy.

In addressing the opportunities and challenges under new circumstances, the Group will further analyse the macroeconomic environment to grab the development opportunities. First, the Group will monitor the size and pace of lending, sticking to its credit differentiation policy. Second, the Group will strengthen its customer services and credit product innovation in order to enhance pricing ability, improve deposit structure by taking proactive liabilities strategies to control its funding costs, and explore more channels to use funds in a more efficient way. Third, the Group will build its brand image for its fee-based business, consolidating its leading edge; continue to exploit its brand advantages in project cost advisory service and other products; and maintain fee and commission income growth by refining incentive mechanisms, and strengthening product innovation and customer expansion. Finally, the Group will strengthen risk management by focusing on pre-lending applicant investigations, loan reviews, and post-lending monitoring, and try to control various risks effectively.

# Changes in Share Capital and Particulars of Shareholders

## CHANGES IN SHARES

Unit: share

| | 1 January 2009 | | Increase/(Decrease) during the reporting period | | | | | 30 June 2009 | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of shares | Percentage (%) | Issuance of additional shares | Bonus issue | Shares converted from capital reserve | Others | Sub-total | Number of shares | Percentage (%) |
| **(I) Shares subject to selling restrictions** | | | | | | | | | |
| 1. State-owned shares[1] | 112,569,894,534 | 48.17 | – | – | – | – | – | 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[3] | 25,580,153,370 | 10.95 | – | – | – | – | – | 25,580,153,370 | 10.95 |
| Comprising: | | | | | | | | | |
| Shares held by foreign legal persons | 25,580,153,370 | 10.95 | – | – | – | – | – | 25,580,153,370 | 10.95 |
| 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 investment shares | 58,940,447,096 | 25.22 | – | – | – | 200,000,000 | 200,000,000 | 59,140,447,096 | 25.31 |
| 4. Others[4] | 6,906,339,000 | 2.96 | – | – | – | (200,000,000) | (200,000,000) | 6,706,339,000 | 2.87 |
| **(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. H-shares of the Bank held by Bank of America that cannot be transferred without the Bank's written consent before 29 August 2011.

4. As at 31 December 2008, the three promoters of the Bank, State Grid, Baosteel Group and Yangtze Power, held 2,706,339,000 H-shares, 3,000 million H-shares and 1,200 million H-shares of the Bank respectively; as at 30 June 2009, they held 2,706,339,000 H-shares, 3,000 million H-shares and 1,000 million H-shares of the Bank respectively.

## NUMBER OF SHAREHOLDERS AND PARTICULARS OF SHAREHOLDINGS

At the end of the reporting period, the Bank had a total of 1,262,330 shareholders, of which 55,592 were holders of H-shares and 1,206,738 were holders of A-shares.

Unit: share

**Total number of shareholders** 1,262,330 (Total number of registered holders of A-shares and H-shares as at 30 June 2009)

**Particulars of shareholdings of the top ten shareholders** (The data are from register of members as at 30 June 2009)

| 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 |
| | | 0.06 | 128,608,238 (A-shares) | – | None |
| HKSCC Nominees Limited[1] | Foreign legal person | 26.34 | 61,562,760,998 (H-shares) | – | Unknown |
| Bank of America[2] | Foreign legal person | 10.95 | 25,580,153,370 (H-shares) | 25,580,153,370 | None |
| Jianyin[3] | State-owned legal person | 8.85 | 20,692,250,000 (H-shares) | 20,692,250,000 | 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 |
| Ping An Life Insurance Company of China – Traditional – Ordinary insurance products | Domestic non- state-owned legal person | 0.12 | 273,999,822 (A-shares) | – | None |
| Lion Stock Fund | Domestic non-state-owned legal person | 0.09 | 221,666,640 (A-shares) | – | None |
| China Pacific Life Insurance Co., Ltd – Traditional – Ordinary insurance products | Domestic non-state-owned legal person | 0.08 | 189,000,000 (A-shares) | – | None |
| China Life Insurance Company Limited – Participating – Individual participating – 005L – FH002SH | Domestic non-state-owned legal person | 0.06 | 138,004,134 (A-shares) | – | None |

1. As at 1 January 2009, Fullerton Financial, State Grid and Yangtze Power held 13,207,316,750 H-shares, 2,706,339,000 H-shares and 1,200,000,000 H-shares of the Bank respectively. As at 30 June 2009, they held 13,207,316,750 H-shares, 2,706,339,000 H-shares and 1,000,000,000 H-shares of the Bank respectively, all of which were held under the name of HKSCC Nominees Limited.

2. In January and May 2009, Bank of America sold 5,623,655,000 H-shares and 13,509,319,346 H-shares of the Bank respectively. After that, the number of H-shares of the Bank held by Bank of America was 25,580,153,370, and these H-shares cannot be transferred without the Bank's written consent before 29 August 2011.

3. According to the share transfer agreement signed between Jianyin and Huijin in May 2009, Jianyin agreed to transfer its 20,692,250,000 H-shares of the Bank to Huijin for free. The transfer of such shares was completed in July 2009. After the transfer, the number of H-shares of the Bank directly held by Huijin increased from 112,569,894,534 to 133,262,144,534.

4. Jianyin is a wholly owned subsidiary of Huijin. Apart from this, the Bank is not aware of any connections among the shareholders or whether they are parties acting in concert.

| Particulars of shareholdings of the top ten shareholders not subject to selling restrictions | | |
|---|---|---|
| **Name of shareholder** | **Shares not subject to selling restrictions** | **Type of share** |
| HKSCC Nominees Limited | 61,562,760,998 | H-share |
| Baosteel Group | 3,000,000,000 | H-share |
| Reca Investment Limited | 800,000,000 | H-share |
| Ping An Life Insurance Company of China — Traditional — Ordinary insurance products | 273,999,822 | A-share |
| Lion Stock Fund | 221,666,640 | A-share |
| China Pacific Life Insurance Co., Ltd — Traditional — Ordinary insurance products | 189,000,000 | A-share |
| China Life Insurance Company Limited — Participating — Individual participating — 005L — FH002SH | 138,004,134 | A-share |
| China Life Insurance Company Limited — Traditional — Ordinary insurance products — 005L — CT001SH | 115,000,000 | A-share |
| China AMC Industry Select Fund (Listed Open-Ended Fund) | 102,475,297 | A-share |
| Bosera Selected Stock Fund | 99,999,925 | A-share |

1. Some of the shareholders mentioned above were managed by the same entity. Apart from this, the Bank is not aware of any connections among the shareholders or whether they are parties acting in concert.

## CHANGES OF SUBSTANTIAL SHAREHOLDERS AND ACTUAL CONTROLLING PARTIES

During the reporting period, according to the share transfer agreement signed between Jianyin and Huijin in May 2009, Jianyin agreed to transfer its 20,692,250,000 H-shares of the Bank to Huijin for free. The transfer of such shares was completed in July 2009. After the transfer, the number of H-shares of the Bank directly held by Huijin increased from 112,569,894,534 to 133,262,144,534.

## MATERIAL INTERESTS AND SHORT POSITIONS

The interests and short positions held by substantial shareholders of the Bank in the H-shares and underlying shares of the Bank as required to be recorded in the register kept under Section 336 of the *Securities and Futures Ordinance* of Hong Kong were as follows:

| Name | Interests and short positions in H-shares | Nature | Percent of issued H-shares (%) | Percent of total issued shares (%) |
|---|---|---|---|---|
| Huijin[1] | 133,262,144,534 | Long position | 59.31 | 57.03 |
| Bank of America[2] | 26,864,958,529 | Long position | 11.96 | 11.50 |
| | 1,230,448,001 | Short position | 0.55 | 0.53 |
| Temasek[3] | 13,576,203,750 | Long position | 6.04 | 5.81 |
| Fullerton Financial[3] | 13,207,316,750 | Long position | 5.88 | 5.65 |

1. According to the share transfer agreement signed between Jianyin and Huijin in May 2009, Jianyin agreed to transfer its 20,692,250,000 H-shares of the Bank to Huijin for free. Huijin and Jianyin both completed their filings of interests in shares and disclosures with Hong Kong Stock Exchange in May 2009. The transfer of such shares was completed in July 2009. After the transfer, the number of H-shares of the Bank directly held by Huijin increased from 112,569,894,534 to 133,262,144,534.

2. In accordance with the disclosure of interests in shares by Bank of America, Bank of America directly held 25,580,153,370 H-shares of the Bank. In addition, Bank of America also held long positions of 1,284,805,159 H-shares of the Bank and short positions of 1,230,448,001 H-shares of the Bank through corporations which it controls.

3. Fullerton Financial is a wholly-owned subsidiary of Temasek. The interests directly held by Fullerton Financial are deemed to be indirectly held interests of Temasek.

# Profiles of Directors, Supervisors, Senior Management and Employees

## PARTICULARS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### Directors of the Bank

Members of the Bank's board of directors include executive directors: Mr. Guo Shuqing, Mr. Zhang Jianguo, Ms. Xin Shusen and Mr. Chen Zuofu; non-executive directors: 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: Lord Peter Levene, Mr. Song Fengming, Ms. Jenny Shipley, Ms. Elaine La Roche, Mr. Wong Kai-Man and Mr. Tse Hau Yin, Aloysius.

### Supervisors of the Bank

Members of the Bank's board of supervisors include shareholder representative supervisors: Mr. Xie Duyang, Ms. Liu Jin and Mr. Jin Panshi; employee representative supervisors: Ms. Cheng Meifen, Mr. Sun Zhixin and Mr. Shuai Jinkun; and external supervisors: Mr. Guo Feng and Mr. Dai Deming.

### Senior Management of the Bank

Senior management of the Bank include Mr. Zhang Jianguo, Ms. Xin Shusen, Mr. Chen Zuofu, Mr. Fan Yifei, Mr. Zhu Xiaohuang, Mr. Hu Zheyi, Mr. Pang Xiusheng, Mr. Yu Yongshun, Mr. Chen Caihong, Mr. Gu Jingpu, Mr. Du Yajun and Mr. Mao Yumin.

## CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Upon election at the 2008 annual general meeting of the Bank and approval by the CBRC, Mr. Chen Zuofu commenced his position as an executive director of the Bank from July 2009.

Upon appointment at the 19th meeting of the second board of directors of the Bank and approval by the CBRC, Mr. Hu Zheyi commenced his position as a vice president of the Bank in March 2009.

The Bank has made appropriate disclosures in respect of such changes in accordance with relevant regulatory requirements.

## DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE BANK

Mr. Shuai Jinkun, the employee representative supervisor of the Bank, indirectly held 22,125 H-shares of the Bank through the employee stock ownership plan before he assumed duties of the position. Apart from this, as of 30 June 2009 none of the directors and supervisors of the Bank had any interests or short positions in the shares, underlying shares or debentures of the Bank or its associated corporations (within the meaning of Part XV of the *Securities and Futures Ordinance* of Hong Kong) as required to be recorded in the register kept under Section 352 of the *Securities and Futures Ordinance* or to be notified to the Bank and Hong Kong Stock Exchange pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers* in Appendix 10 of the Listing Rules of Hong Kong Stock Exchange.

Except for the employee stock incentive plan, the Bank has not granted its directors or supervisors, or their respective spouses or children below the age of 18, any other rights to subscribe for the shares or debentures of the Bank or any of its associated corporations.

## DIRECTORS AND SUPERVISORS' SECURITIES TRANSACTIONS

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 in relation to securities transactions by directors and supervisors. Directors and supervisors of the Bank have, during the six months ended 30 June 2009, complied with the provisions of this code of practice.

## EMPLOYEES OF THE BANK

At the end of June 2009, the Bank had 297,127 staff members, of which 118,637 or 39.9% have academic qualifications of bachelor's degree or above. In addition, the Bank had 46,593 workers assigned by labour dispatching service companies, and the number of retired employees for whom the Bank assumes expenses was 32,666.

## CORPORATE GOVERNANCE

During the reporting period, the Bank continued to improve its corporate governance structure based on its corporate governance practices, in accordance with the *Company Law of the People's Republic of China, Law of the People's Republic of China on Commercial Banks* and other laws and regulations, as well as listing rules of the listing venues. Its internal control system was further strengthened, with its internal control rules effectively implemented.

Throughout the six months ended 30 June 2009, 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, and has complied with most of the recommended best practices therein.

## IMPLEMENTATION OF CASH DIVIDEND POLICY

As approved by the 2008 annual general meeting of the Bank, the Bank distributed the 2008 final dividends of RMB0.0837 per share (including tax) on 8 July 2009 to the Bank's shareholders registered as at 23 June 2009.

## PERFORMANCE OF UNDERTAKINGS GIVEN BY THE BANK OR SHAREHOLDERS HOLDING 5% OR MORE OF THE SHARES

The Bank's shareholders did not give any new undertakings in the reporting period, and the undertakings that continue to be valid during the reporting period were the same as those disclosed in the prospectus of the Bank. For the six months ended 30 June 2009, all undertakings given by the shareholders of the Bank have been fulfilled.

## MATERIAL CONTRACTS AND THEIR PERFORMANCE

During the reporting period, the Bank did not enter into any material arrangements for custody, contracting or lease of other companies' assets, or allow its material assets to be subject to such arrangements by other companies. The guarantee business is an off-balance sheet service in the ordinary course of the Bank's business, and the Bank did not have any material guarantees that need to be disclosed except for the financial guarantee services within its business scope as approved by the regulators. The Bank did not entrust any material cash assets to others for management during the reporting period.

## ACQUISITION AND DISPOSAL OF ASSETS AND MERGER OF ENTERPRISES

There was neither material acquisition and disposal of assets nor material merger of enterprises by the Bank during the reporting period.

## USE OF PROCEEDS OF THE IPO

The Bank uses all the proceeds from its A-share IPO in 2007 to supplement its capital base.

## MATERIAL PROJECTS INVESTED WITH FUNDS OTHER THAN PROCEEDS OF THE IPO

The Bank invested RMB3,409 million to increase its investments in Hefei Xingtai Trust Co., Ltd, and held 67% of the shares of the company after the capital increase.

## PURCHASE, SALE AND REDEMPTION OF SHARES

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

## MATERIAL RELATED PARTY TRANSACTIONS

There were no material related party transactions during the reporting period.

## DONATIONS

During the reporting period, the Group donated RMB2 million for poverty alleviation and disaster relief projects.

## PROGRESS OF IMPLEMENTATION OF EMPLOYEE STOCK INCENTIVE PLAN

During the reporting period, the Bank did not implement a new round of stock incentive plan. At the end of the reporting period, the total number of H-shares managed by the trustee under the employee stock incentive plan remained 800 million, representing 0.34% of the Bank's total number of shares. Around 270,000 employees of the Bank participated in this plan.

Mr. Shuai Jinkun, the employee representative supervisor of the Bank, indirectly held 22,125 H-shares of the Bank through the employee stock ownership plan before he assumed duties of the position. Mr. Chen Caihong, secretary to the Board of the Bank, indirectly held 19,417 H-shares of the Bank through the employee stock ownership plan before he assumed duties of the position. Apart from these, none of the directors, supervisors and senior executives of the Bank holds any shares of the Bank.

## MATERIAL LITIGATIONS AND ARBITRATIONS

There were no material litigations or arbitrations for the Bank during the reporting period.

## PENALTIES

During the reporting period, neither the Bank nor any of its directors, supervisors, senior management, or actual controlling parties had been investigated by competent authorities, subject to compulsory measures taken by judicial or discipline inspection authorities, delivered to judicial authorities, or held for any criminal liability. The Bank, its board of directors, its directors, supervisors or senior management had been subject to no inspections, administrative penalties or criticisms by the CSRC, or public censures by stock exchanges.

## AUDIT COMMITTEE

The Audit Committee has reviewed the accounting policies and practices the Group adopted, as well as the half-year financial statements of the Group.

## OTHER SHARES HELD BY THE BANK

### Top ten investments in securities

| Number | Stock code | Stock abbreviation | Shares held at period-end | Initial investment amount (RMB) | Period-end carrying amount (RMB) | Beginning carrying amount (RMB) | Accounting item | Sources of shares |
|---|---|---|---|---|---|---|---|---|
| 1 | 601600 | CHALCO | 709,773,136 | 883,586,630 | 8,637,939,065 | 4,365,104,786 | Available-for-sale financial assets | Investment held through debt equity swap |
| 2 | 000578 | QINGHAI SALT LAKE | 181,960,736 | 137,273,000 | 4,516,504,047 | 4,088,430,004 | Available-for-sale financial assets | Investment held through debt equity swap |
| 3 | 600068 | G.C.L | 133,445,624 | 232,566,694 | 1,362,079,484 | 914,502,861 | Available-for-sale financial assets | Investment held through debt equity swap |
| 4 | 998 HK | CITIC Bank | 168,599,268 | 415,135,765 | 747,585,323 | 393,312,543 | Available-for-sale financial assets | Investment held through equity swap upon privatisation |
| 5 | 600462 | Y.S.B.P | 45,600,000 | 41,248,000 | 216,321,300 | 121,201,621 | Available-for-sale financial assets | Investment held through debt equity swap |
| 6 | 1051HK | G-RESOURCES[1] | 440,000,000 | 135,728,886 | 205,532,312 | | Trading investments | Acquired from placements |
| 7 | 600984 | SCMC | 24,347,042 | 44,160,528 | 192,956,638 | 71,342,602 | Available-for-sale financial assets | Investment held through debt equity swap |
| 8 | 000001 | SDB | 8,571,414 | 31,300,157 | 187,028,253 | 81,085,576 | Available-for-sale financial assets | Establishment of investment, exercise of share options |
| 9 | 1893HK | Sinoma | 24,403,000 | 96,784,831 | 137,219,383 | 136,446,875 | Trading investments | IPO subscription |
| 10 | 2302HK | CNNC Int'l[1] | 11,880,000 | 18,532,810 | 115,385,065 | | Trading investments | Exercise of share options |
| Total | | | | 2,036,317,301 | 16,318,550,870 | | | |

1. The Bank held no such investments at the beginning of the period.

2. Investment in securities in this table refers to stocks, warrants, convertible bonds and open-ended or close-ended funds that are classified as available-for-sale or trading financial assets.

## Interests in non-listed financial institutions

| Name | Initial investment amount (RMB) | Number of shares held | Percent of shareholdings (%) | Carrying amount at the end of the period (RMB) |
|---|---|---|---|---|
| China Construction Bank (Asia) Corporation Limited[1] | | 7,800,000 | 100.00 | |
| CCB International Securities Ltd.[1] | | 150,000,000 | 100.00 | |
| CCB International Capital Ltd.[1] | | 128,000,000 | 100.00 | |
| CCB International Asset Management Ltd.[1] | | 48,000,000 | 100.00 | |
| CCB Financial Leasing Corporation Limited[1] | | 3,379,500,000 | 75.10 | |
| CCB Principal Asset Management Co., Ltd.[1] | | 130,000,000 | 65.00 | |
| Sino-German Bausparkasse Corporation Limited[1] | | 751,000,000 | 75.10 | |
| Hunan Taojiang Jianxin Rural Bank Co. Ltd.[1] | | 25,500,000 | 51.00 | |
| Zhejiang Cangnan Jianxin Rural Bank Co. Ltd.[1] | | 52,500,000 | 35.00 | |
| QBE Hongkong and Shanghai Insurance Limited | 98,758,409 | 19,939,016 | 25.50 | 107,328,598 |
| China UnionPay Co., Ltd. | 95,625,000 | 140,000,000 | 4.85 | 215,000,000 |
| Guangdong Development Bank Ltd. | 48,558,031 | 12,784,616 | 0.11 | 48,558,031 |
| Evergrowing Bank Co., Ltd. | 7,000,000 | 45,500,000 | 2.69 | 7,000,000 |
| Yueyang City Commercial Bank Co., Ltd. | 3,500,000 | 3,536,400 | 1.59 | 980,000 |

1. These are consolidated entities, and therefore their initial investment amounts and carrying amounts at the end of the reporting period are not shown in the consolidated balance sheet.

# Independent Review Report

**Independent review report to the Board of Directors of China Construction Bank Corporation**
*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

## INTRODUCTION

We have reviewed the interim financial information of China Construction Bank Corporation (the "Bank") and its subsidiaries (collectively the "Group") set out on pages 62 to 200, which comprises the consolidated and Bank statement of financial position as at 30 June 2009, and the consolidated statement of comprehensive income, consolidated and the Bank statements of changes in equity, the consolidated statement of cash flows for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34.

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

## SCOPE OF REVIEW

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

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information as at 30 June 2009 is not prepared, in all material respects, in accordance with International Accounting Standards 34 "Interim Financial Reporting".

**KPMG**
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

21 August 2009

# Half-Year Financial Statements

# Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009
(Expressed in millions of Renminbi, unless otherwise stated)

| | Note | Six months ended 30 June 2009 | 2008 |
|---|---|---|---|
| Interest income | | **168,435** | 172,193 |
| Interest expense | | **(65,967)** | (61,113) |
| **Net interest income** | 3 | **102,468** | 111,080 |
| Fee and commission income | | **24,391** | 20,926 |
| Fee and commission expense | | **(969)** | (758) |
| **Net fee and commission income** | 4 | **23,422** | 20,168 |
| Net trading gain | 5 | **1,293** | 1,292 |
| Dividend income | 6 | **54** | 75 |
| Net gain arising from investment securities | 7 | **3,458** | 1,646 |
| Other operating income, net | 8 | **770** | 1,475 |
| **Operating income** | | **131,465** | 135,736 |
| **Operating expenses** | 9 | **(46,185)** | (46,193) |
| | | **85,280** | 89,543 |
| Impairment losses on: | | | |
| — Loans and advances to customers | | **(10,274)** | (11,458) |
| — Others | | **(2,545)** | (2,448) |
| **Impairment losses** | 10 | **(12,819)** | (13,906) |
| **Share of profits less losses of associates and jointly controlled entities** | | **8** | 18 |
| **Profit before tax** | | **72,469** | 75,655 |
| Income tax | 11 | **(16,628)** | (16,963) |
| **Net profit** | | **55,841** | 58,692 |
| Other comprehensive income: | | | |
| Available-for-sale financial assets | | | |
| Gains/(losses) arising during the period | | **2,036** | (14,623) |
| Reclassification adjustments for net losses included in profit or loss | | **1,225** | 2,196 |
| | | **3,261** | (12,427) |
| Exchange difference on translating foreign operations | | **120** | (1,089) |
| **Total other comprehensive income** | | **3,381** | (13,516) |
| Income tax relating to components of other comprehensive income | | **(815)** | 3,092 |
| **Other comprehensive income for the period, net of tax** | | **2,566** | (10,424) |
| **Total comprehensive income for the period** | | **58,407** | 48,268 |
| **Net profit attributable to:** | | | |
| Equity shareholders of the Bank | | **55,806** | 58,667 |
| Minority interests | | **35** | 25 |
| | | **55,841** | 58,692 |
| **Total comprehensive income attributable to:** | | | |
| Equity shareholders of the Bank | | **58,370** | 48,243 |
| Minority interests | | **37** | 25 |
| | | **58,407** | 48,268 |
| **Basic and diluted earnings per share (in RMB)** | 12 | **0.24** | 0.25 |

The notes on pages 69 to 200 form part of these financial statements.

# Consolidated Statement of Financial Position

As at 30 June 2009

(Expressed in millions of Renminbi, unless otherwise stated)

| | Note | 30 June 2009 | 31 December 2008 |
|---|---|---|---|
| **Assets** | | | |
| Cash and deposits with central banks | 13 | **1,262,352** | 1,247,450 |
| Deposits with banks and non-bank financial institutions | 14 | **68,524** | 33,096 |
| Precious metals | | **6,166** | 5,160 |
| Placements with banks and non-bank financial institutions | 15 | **19,439** | 16,836 |
| Trading financial assets | 16 | **37,938** | 50,309 |
| Positive fair value of derivatives | 17 | **11,030** | 21,299 |
| Financial assets held under resale agreements | 18 | **868,452** | 208,548 |
| Interest receivable | 19 | **39,778** | 38,317 |
| Loans and advances to customers | 20 | **4,409,152** | 3,683,575 |
| Available-for-sale financial assets | 21 | **572,165** | 550,838 |
| Held-to-maturity investments | 22 | **1,217,773** | 1,041,783 |
| Debt securities classified as receivables | 23 | **486,186** | 551,818 |
| Interests in associates and jointly controlled entities | 25 | **1,751** | 1,728 |
| Fixed assets | 26 | **63,701** | 63,957 |
| Long-term lease prepayment | 27 | **16,999** | 17,295 |
| Intangible assets | 28 | **1,127** | 1,253 |
| Goodwill | 29 | **1,529** | 1,527 |
| Deferred tax assets | 30 | **10,784** | 7,855 |
| Other assets | 31 | **15,325** | 12,808 |
| **Total assets** | | **9,110,171** | 7,555,452 |
| **Liabilities** | | | |
| Borrowings from central banks | | **6** | 6 |
| Deposits from banks and non-bank financial institutions | 34 | **699,068** | 447,464 |
| Placements from banks and non-bank financial institutions | 35 | **24,966** | 43,108 |
| Trading financial liabilities | 36 | **100** | 3,975 |
| Negative fair value of derivatives | 17 | **10,430** | 18,565 |
| Financial assets sold under repurchase agreements | 37 | **482** | 864 |
| Deposits from customers | 38 | **7,610,022** | 6,375,915 |
| Accrued staff costs | 39 | **24,695** | 25,153 |
| Taxes payable | 40 | **20,390** | 35,538 |
| Interest payable | 41 | **66,062** | 59,695 |
| Provisions | 42 | **1,580** | 1,806 |
| Debt securities issued | 43 | **96,635** | 53,810 |
| Deferred tax liabilities | 30 | **—** | 5 |
| Other liabilities | 44 | **49,201** | 21,986 |
| **Total liabilities** | | **8,603,637** | 7,087,890 |
| **Equity** | | | |
| Share capital | 45 | **233,689** | 233,689 |
| Capital reserve | 46 | **90,241** | 90,241 |
| Investment revaluation reserve | 47 | **13,600** | 11,156 |
| Surplus reserve | 48 | **26,922** | 26,922 |
| General reserve | 49 | **46,658** | 46,628 |
| Retained earnings | 50 | **95,809** | 59,593 |
| Exchange reserve | 51 | **(2,143)** | (2,263) |
| **Total equity attributable to equity shareholders of the Bank** | | **504,776** | 465,966 |
| Minority interests | | **1,758** | 1,596 |
| **Total equity** | | **506,534** | 467,562 |
| **Total liabilities and equity** | | **9,110,171** | 7,555,452 |

Approved and authorised for issue by the board of directors on 21 August 2009.

**Zhang Jianguo**
*Vice chairman, executive director and president*

**Tse Hau Yin, Aloysius**
*Independent non-executive director*

**Wang Shumin**
*Non-executive director*

The notes on pages 69 to 200 form part of these financial statements.

# Statement of Financial Position

As at 30 June 2009
(Expressed in millions of Renminbi, unless otherwise stated)

| | Note | 30 June 2009 | 31 December 2008 |
|---|---|---|---|
| **Assets** | | | |
| Cash and deposits with central banks | 13 | **1,262,033** | 1,247,053 |
| Deposits with banks and non-bank financial institutions | 14 | **66,637** | 28,425 |
| Precious metals | | **6,166** | 5,160 |
| Placements with banks and non-bank financial institutions | 15 | **19,527** | 28,426 |
| Trading financial assets | 16 | **29,282** | 44,491 |
| Positive fair value of derivatives | 17 | **9,957** | 20,335 |
| Financial assets held under resale agreements | 18 | **868,452** | 208,548 |
| Interest receivable | 19 | **39,657** | 38,297 |
| Loans and advances to customers | 20 | **4,363,857** | 3,639,940 |
| Available-for-sale financial assets | 21 | **570,020** | 551,156 |
| Held-to-maturity investments | 22 | **1,217,552** | 1,041,783 |
| Debt securities classified as receivables | 23 | **486,186** | 551,818 |
| Investments in subsidiaries | 24 | **5,407** | 4,670 |
| Fixed assets | 26 | **63,357** | 63,723 |
| Long-term lease prepayment | 27 | **16,961** | 17,229 |
| Intangible assets | 28 | **1,104** | 1,233 |
| Deferred tax assets | 30 | **11,071** | 8,059 |
| Other assets | 31 | **32,393** | 26,222 |
| **Total assets** | | **9,069,619** | 7,526,568 |
| **Liabilities** | | | |
| Borrowings from central banks | | **6** | 6 |
| Deposits from banks and non-bank financial institutions | 34 | **701,205** | 448,461 |
| Placements from banks and non-bank financial institutions | 35 | **23,076** | 53,191 |
| Trading financial liabilities | 36 | **100** | 3,975 |
| Negative fair value of derivatives | 17 | **10,092** | 18,103 |
| Financial assets sold under repurchase agreements | 37 | **482** | 864 |
| Deposits from customers | 38 | **7,575,548** | 6,342,985 |
| Accrued staff costs | 39 | **24,245** | 24,807 |
| Taxes payable | 40 | **20,065** | 35,310 |
| Interest payable | 41 | **66,024** | 59,652 |
| Provisions | 42 | **1,580** | 1,806 |
| Debt securities issued | 43 | **97,998** | 52,531 |
| Other liabilities | 44 | **47,651** | 21,321 |
| **Total liabilities** | | **8,568,072** | 7,063,012 |
| **Equity** | | | |
| Share capital | 45 | **233,689** | 233,689 |
| Capital reserve | 46 | **90,241** | 90,241 |
| Investment revaluation reserve | 47 | **13,592** | 11,138 |
| Surplus reserve | 48 | **26,922** | 26,922 |
| General reserve | 49 | **46,209** | 46,200 |
| Retained earnings | 50 | **91,316** | 55,867 |
| Exchange reserve | 51 | **(422)** | (501) |
| **Total equity** | | **501,547** | 463,556 |
| **Total liabilities and equity** | | **9,069,619** | 7,526,568 |

Approved and authorised for issue by the board of directors on 21 August 2009.

| **Zhang Jianguo** | **Tse Hau Yin, Aloysius** | **Wang Shumin** |
|---|---|---|
| *Vice chairman, executive director and president* | *Independent non-executive director* | *Non-executive director* |

The notes on pages 69 to 200 form part of these financial statements.

# Consolidated Statement of Changes in Equity

For the six months ended 30 June 2009
(Expressed in millions of Renminbi, unless otherwise stated)

| | 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 2009** | **233,689** | **90,241** | **11,156** | **26,922** | **46,628** | **59,593** | **(2,263)** | **1,596** | **467,562** |
| **Movements during the period** | **–** | **–** | **2,444** | **–** | **30** | **36,216** | **120** | **162** | **38,972** |
| **(1) Total comprehensive income for the period** | **–** | **–** | **2,444** | **–** | **–** | **55,806** | **120** | **37** | **58,407** |
| **(2) Changes in share capital** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **143** | **143** |
| i Disposal of shares of a subsidiary to minority interests | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **23** | **23** |
| ii Minority interests of new subsidiaries | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **120** | **120** |
| **(3) Profit distribution** | **–** | **–** | **–** | **–** | **30** | **(19,590)** | **–** | **(18)** | **(19,578)** |
| i Appropriation to general reserve | **–** | **–** | **–** | **–** | **30** | **(30)** | **–** | **–** | **–** |
| ii Appropriation to equity shareholders | **–** | **–** | **–** | **–** | **–** | **(19,560)** | **–** | **(18)** | **(19,578)** |
| **As at 30 June 2009** | **233,689** | **90,241** | **13,600** | **26,922** | **46,658** | **95,809** | **(2,143)** | **1,758** | **506,534** |
| **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 period** | – | – | (9,335) | – | 15,025 | 28,452 | (1,089) | 64 | 33,117 |
| **(1) Total comprehensive income for the period** | – | – | (9,335) | – | – | 58,667 | (1,089) | 25 | 48,268 |
| **(2) Changes in share capital** | – | – | – | – | – | – | – | 62 | 62 |
| i Capital injection by minority interests | – | – | – | – | – | – | – | 62 | 62 |
| **(3) Profit distribution** | – | – | – | – | 15,025 | (30,215) | – | (23) | (15,213) |
| i Appropriation to general reserve | – | – | – | – | 15,025 | (15,025) | – | – | – |
| ii Appropriation to equity shareholders | – | – | – | – | – | (15,190) | – | (23) | (15,213) |
| **As at 30 June 2008** | 233,689 | 90,241 | 7,073 | 17,845 | 46,573 | 60,616 | (2,007) | 1,368 | 455,398 |
| **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) Total comprehensive income for the year** | – | – | (5,252) | – | – | 92,599 | (1,345) | 41 | 86,043 |
| **(2) Changes in share capital** | – | – | – | – | – | – | – | 274 | 274 |
| i Capital injection by minority interests | – | – | – | – | – | – | – | 212 | 212 |
| ii Disposal of shares of a subsidiary to minority interests | – | – | – | – | – | – | – | 38 | 38 |
| iii Minority interests of a new subsidiary | – | – | – | – | – | – | – | 24 | 24 |
| **(3) 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 equity 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 |

The notes on pages 69 to 200 form part of these financial statements.

# Statement of Changes in Equity

For the six months ended 30 June 2009
(Expressed in millions of Renminbi, unless otherwise stated)

| | Share capital | Capital reserve | Investment revaluation reserve | Surplus reserve | General reserve | Retained earnings | Exchange reserve | Total equity |
|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2009** | **233,689** | **90,241** | **11,138** | **26,922** | **46,200** | **55,867** | **(501)** | **463,556** |
| **Movements during the period** | **–** | **–** | **2,454** | **–** | **9** | **35,449** | **79** | **37,991** |
| **(1) Total comprehensive income for the period** | **–** | **–** | **2,454** | **–** | **–** | **55,018** | **79** | **57,551** |
| **(2) Profit distribution** | **–** | **–** | **–** | **–** | **9** | **(19,569)** | **–** | **(19,560)** |
| i Appropriation to general reserve | **–** | **–** | **–** | **–** | **9** | **(9)** | **–** | **–** |
| ii Appropriation to equity shareholders | **–** | **–** | **–** | **–** | **–** | **(19,560)** | **–** | **(19,560)** |
| **As at 30 June 2009** | **233,689** | **90,241** | **13,592** | **26,922** | **46,209** | **91,316** | **(422)** | **501,547** |
| **As at 1 January 2008** | 233,689 | 90,241 | 16,388 | 17,845 | 31,200 | 30,190 | (36) | 419,517 |
| **Movements during the period** | – | – | (9,235) | – | 15,000 | 27,176 | (201) | 32,740 |
| **(1) Total comprehensive income for the period** | – | – | (9,235) | – | – | 57,366 | (201) | 47,930 |
| **(2) Profit distribution** | – | – | – | – | 15,000 | (30,190) | – | (15,190) |
| i Appropriation to general reserve | – | – | – | – | 15,000 | (15,000) | – | – |
| ii Appropriation to equity shareholders | – | – | – | – | – | (15,190) | – | (15,190) |
| **As at 30 June 2008** | 233,689 | 90,241 | 7,153 | 17,845 | 46,200 | 57,366 | (237) | 452,257 |
| **As at 1 January 2008** | 233,689 | 90,241 | 16,388 | 17,845 | 31,200 | 30,190 | (36) | 419,517 |
| **Movements during the year** | – | – | (5,250) | 9,077 | 15,000 | 25,677 | (465) | 44,039 |
| **(1) Total comprehensive income for the year** | – | – | (5,250) | – | – | 90,767 | (465) | 85,052 |
| **(2) Profit distribution** | – | – | – | 9,077 | 15,000 | (65,090) | – | (41,013) |
| i Appropriation to surplus reserve | – | – | – | 9,077 | – | (9,077) | – | – |
| ii Appropriation to general reserve | – | – | – | – | 15,000 | (15,000) | – | – |
| iii Appropriation to equity shareholders | – | – | – | – | – | (41,013) | – | (41,013) |
| **As at 31 December 2008** | 233,689 | 90,241 | 11,138 | 26,922 | 46,200 | 55,867 | (501) | 463,556 |

The notes on pages 69 to 200 form part of these financial statements.

# Consolidated Statement of Cash Flows

For the six months ended 30 June 2009
(Expressed in millions of Renminbi, unless otherwise stated)

| | Note | Six months ended 30 June 2009 | 2008 |
|---|---|---|---|
| ***Cash flows from operating activities*** | | | |
| Profit before tax | | **72,469** | 75,655 |
| *Adjustments for:* | | | |
| — Dividend income | 6 | **(54)** | (75) |
| — Revaluation gain on trading and derivatives financial instruments | | **(518)** | (335) |
| — Net gain on disposal of investment securities | 7 | **(3,458)** | (1,646) |
| — Net gain on disposal of fixed assets and other long-term assets | 8 | **(44)** | (84) |
| — Unwinding of discount | | **(707)** | (802) |
| — Share of profit less losses of associates and jointly controlled entities | | **(8)** | (18) |
| — Unrealised foreign exchange (gain)/loss | | **(1,947)** | 3,469 |
| — Depreciation and amortisation | 9 | **5,327** | 4,487 |
| — Impairment losses | 10 | **12,819** | 13,906 |
| — Interest expense on bonds issued | | **1,486** | 1,005 |
| | | **85,365** | 95,562 |
| *Changes in operating assets:* | | | |
| Net increase in deposits with central banks and with banks and non-bank financial institutions | | **(187,690)** | (226,640) |
| Net decrease/(increase) in placements with banks and non-bank financial institutions | | **515** | (19,566) |
| Net increase in loans and advances to customers | | **(735,473)** | (288,957) |
| Net (increase)/decrease in financial assets held under resale agreements | | **(659,904)** | 68,179 |
| Decrease/(increase) in other operating assets | | **3,765** | (62,707) |
| | | **(1,578,787)** | (529,691) |
| *Changes in operating liabilities:* | | | |
| Net (decrease)/increase in placements from banks and non-bank financial institutions | | **(18,181)** | 48,645 |
| Net increase in deposits from customers and from banks and non-bank financial institutions | | **1,485,405** | 426,254 |
| Net decrease in financial assets sold under repurchase agreements | | **(383)** | (62,226) |
| Net increase in certificates of deposit issued | | **2,868** | 2,828 |
| Income tax paid | | **(34,699)** | (28,318) |
| Increase in other operating liabilities | | **10,307** | 21,829 |
| | | **1,445,317** | 409,012 |
| **Net cash used in operating activities** | | **(48,105)** | (25,117) |

The notes on pages 69 to 200 form part of these financial statements.

## Consolidated Statement of Cash Flows

For the six months ended 30 June 2009
(Expressed in millions of Renminbi, unless otherwise stated)

| | Note | Six months ended 30 June 2009 | 2008 |
|---|---|---|---|
| ***Cash flows from investing activities*** | | | |
| Proceeds from disposal and redemption of investments | | **474,231** | 475,349 |
| Dividend received | | **54** | 75 |
| Proceeds from disposal of shares of subsidiaries | 52(3) | **23** | — |
| Proceeds from acquisition of subsidiaries | | **120** | — |
| Proceeds from capital contribution by minority interests | 52(2) | **—** | 62 |
| Proceeds from disposal of fixed assets and other long-term assets | | **332** | 410 |
| Payments on acquisition of investments | | **(595,365)** | (481,849) |
| Payments on acquisition of associates and jointly controlled entities | 52(2) | **(12)** | (415) |
| Payments on acquisition of fixed assets and other long-term assets | | **(4,760)** | (4,473) |
| **Net cash used in investing activities** | | **(125,377)** | (10,841) |
| ***Cash flows from financing activities*** | | | |
| Proceeds from bonds issued | | **39,931** | — |
| Dividend paid | 52(4) | **(641)** | (23) |
| Interest paid on bonds issued | | **(104)** | (158) |
| **Net cash from/(used in) financing activities** | | **39,186** | (181) |
| **Effect of exchange rate changes on cash and cash equivalents** | | **37** | (1,095) |
| **Net decrease in cash and cash equivalents** | | **(134,259)** | (37,234) |
| **Cash and cash equivalents as at 1 January** | 52(1) | **355,811** | 180,508 |
| **Cash and cash equivalents as at 30 June** | 52(1) | **221,552** | 143,274 |
| **Cash flows from operating activities include:** | | | |
| Interest received | | **161,793** | 157,631 |
| Interest paid, excluding interest expense on bonds issued | | **(59,587)** | (48,482) |

The notes on pages 69 to 200 form part of these financial statements.

## 1 CORPORATE INFORMATION

China Construction Bank Corporation (the "Bank") is a joint stock company with limited liability incorporated in the People's Republic of China (the "PRC") on 17 September 2004 ("Incorporation Date"). The registered office of the Bank is located at No. 25, Finance Street, Xicheng District, Beijing, the PRC.

In October 2005 and September 2007, the Bank publicly offered H shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and A shares on the Shanghai Stock Exchange respectively. All H and A shares rank pari passu with the same rights and benefits.

As at 30 June 2009, Central Huijin Investments Limited ("Huijin") held 57.08% shares of the Bank, and exercises the rights and obligations as an investor on behalf of the PRC Government. Huijin is a wholly owned subsidiary of China Investment Corporation ("CIC"). The application procedures to transfer the equity interests of Huijin to CIC were completed in the first half of 2009.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, trustee, finance leasing and other financial services. The Group mainly operates in Mainland China and also has several overseas branches and subsidiaries.

For the purpose of the interim financial statements, Mainland China refers to the PRC excluding the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), the Macau Special Administrative Region of the PRC ("Macau") and Taiwan. Overseas refers to countries and regions other than Mainland China.

## 2 BASIS OF PREPARATION

### (1) Compliance with International Financial Reporting Standards ("IFRSs")

The interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "*Interim Financial Reporting*" and with all applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The unaudited interim financial statements contain selected explanatory notes, which provide explanations of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the financial statements for the year ended 31 December 2008. The selected notes do not include all of the information and disclosures required for a full set of financial statements prepared in accordance with IFRSs, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2008.

### (2) Use of estimates and assumptions

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results in the future may differ from those reported as a result of the use of estimates and assumptions about future conditions.

## 2 BASIS OF PREPARATION (continued)

### (3) Consolidation

The interim financial statements comprise the Bank and its subsidiaries and the Group's interests in associates and jointly controlled entities.

The results and affairs of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Necessary adjustments on the accounting period and accounting policies of subsidiaries are made to comply with those of the Bank. Intragroup balances and transactions, and any profits or losses arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements.

The Group's interest in associates or jointly controlled entities is included from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. Profits and losses resulting from transactions between the Group and its associates or jointly controlled entities are eliminated to the extent of the Group's interest in the associates or jointly controlled entities.

### (4) Significant accounting policies

International Accounting Standard Board (the "IASB") has issued certain new IFRSs, a number of amendments to IFRSs and new interpretations. Of these, the following developments are first effective for the current accounting period and relevant to the interim financial statements of the Group:

- IAS 1 (revised 2007), *Presentation of financial statements*;
- Amendments to IAS 27, *Consolidated and separate financial statements — cost of an investment in a subsidiary, jointly controlled entity or associate*;
- Improvements to IFRSs (2008); and
- IFRS 8, *Operating segments*.

IAS 1 (revised 2007) *Presentation of financial statements* requires to present, in a statement of changes in equity, all changes in equity arising from transactions with shareholders in their capacity as shareholders (i.e. shareholder changes in equity). All non-shareholder changes in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). At the same time, reclassification adjustments and income tax relating to each component of other comprehensive income shall be disclosed. Components of comprehensive income are not permitted to be presented in the statement of changes in equity. Dividends distributed and related amounts per share are not permitted to be presented in the statement of comprehensive income. The Group has adopted the amendments to IAS 1 in the interim financial statements.

Amendments to cost of an investment in a subsidiary, jointly controlled entity or associate of IAS 27 and 35 amendments across 20 different standards of Improvements to IFRSs (2008), largely clarify relevant accounting treatments.

## 2 BASIS OF PREPARATION (continued)

### (4) Significant accounting policies (continued)

IFRS 8 *Operating segments* replaces IAS 14 *Segment Reporting*. The identification of segments is no longer required to be two sets of segments — one based on related products and services, and the other on geographical areas and to be regarded one set as primary segments and the other as secondary segments. The measurement of segment information is no more required to be prepared in conformity with the accounting policies adopted for preparing financial statements. IFRS 8 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. IFRS 8 clarifies the amount reported for each operating segment item to be the measure reported to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance. The Group has prepared and presented operating segments in accordance with the requirements of IFRS 8 in the interim financial statements.

The Group has not adopted any new IFRSs not yet effective for the current period.

The accounting policies adopted by the Group for the interim financial statements are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 31 December 2008. The developments of IFRSs mentioned above have no material impact on the accounting policies of the Group.

### (5) Interim financial statements and statutory financial statements

The interim financial statements have been reviewed by the Audit Committee of the Bank, and were approved by the board of directors of the Bank on 21 August 2009. The interim financial statements have also been reviewed by the Bank's auditors, KPMG, in accordance with Hong Kong Standards on Review Engagements 2410 *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"* issued by the Hong Kong Institute of Certified Public Accountants.

The financial information for the period ended 30 June 2008 and for the year ended 31 December 2008 that is included in the interim financial statements as previously reported information does not constitute the Group's statutory financial statements for that period or that year but is derived from those financial statements. The statutory financial statements for the period ended 30 June 2008 and for the year ended 31 December 2008 are available from the Bank's registered office. The auditors have expressed unqualified opinions on those financial statements in their reports dated 22 August 2008 and 27 March 2009 respectively.

(Expressed in millions of Renminbi unless otherwise stated)

## 3 NET INTEREST INCOME

| | Note | Six months ended 30 June 2009 | 2008 |
|---|---|---|---|
| ***Interest income arising from:*** | | | |
| Deposits with central banks | | **8,961** | 8,296 |
| Deposits with banks and non-bank financial institutions | | **185** | 297 |
| Placements with banks and non-bank financial institutions | | **168** | 1,218 |
| Trading financial assets | | **749** | 371 |
| Financial assets held under resale agreements | | **3,337** | 2,497 |
| Investment securities | (3) | **34,534** | 38,876 |
| Loans and advances to customers | | | |
| — Corporate loans and advances | | **95,047** | 90,365 |
| — Personal loans and advances | | **22,769** | 26,343 |
| — Discounted bills | | **2,685** | 3,930 |
| Total | | **168,435** | 172,193 |
| ***Interest expense arising from:*** | | | |
| Deposits from banks and non-bank financial institutions | | **(5,764)** | (5,135) |
| Placements from banks and non-bank financial institutions | | **(193)** | (714) |
| Trading financial liabilities | | **(25)** | (191) |
| Financial assets sold under repurchase agreements | | **(8)** | (396) |
| Debt securities issued | | **(1,675)** | (1,186) |
| Deposits from customers | | | |
| — Corporate deposits | | **(25,833)** | (25,786) |
| — Personal deposits | | **(32,469)** | (27,705) |
| Total | | **(65,967)** | (61,113) |
| Net interest income | | **102,468** | 111,080 |

(Expressed in millions of Renminbi unless otherwise stated)

## 3 NET INTEREST INCOME (continued)

Notes:

(1) The interest income and expense from trading financial assets and liabilities are listed as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| Interest income | **749** | 371 |
| Interest expense | **(25)** | (191) |

Trading financial assets and liabilities include those held for trading purpose, as well as those designated as at fair value through profit or loss.

The interest income and expense from non-trading financial assets and liabilities are listed as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| Interest income | **167,686** | 171,822 |
| Interest expense | **(65,942)** | (60,922) |

(2) Interest income from impaired financial assets is listed as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| Impaired loans | **708** | 876 |
| Other impaired financial assets | **523** | 674 |
| Total | **1,231** | 1,550 |

(3) Investment securities include debt securities classified as held-to-maturity investments, available-for-sale financial assets and debt securities classified as receivables. The interest income from investment securities is mainly derived from unlisted debt securities.

(4) Interest expense on financial liabilities with maturity over five years mainly represented the interest expense on debt securities issued.

(Expressed in millions of Renminbi unless otherwise stated)

## 4 NET FEE AND COMMISSION INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| ***Fee and commission income:*** | | |
| Consultancy and advisory fees | **6,262** | 3,562 |
| Agency service fees | **4,359** | 6,190 |
| Bank card fees | **4,280** | 3,258 |
| Commission on trust and fiduciary activities | **3,257** | 2,603 |
| Settlement and clearing fees | **2,931** | 2,238 |
| Guarantee fees | **823** | 703 |
| Credit commitment fees | **650** | 1,024 |
| Others | **1,829** | 1,348 |
| Total | **24,391** | 20,926 |
| ***Fee and commission expense:*** | | |
| Bank card transaction fees | **(557)** | (414) |
| Inter-bank transaction fees | **(157)** | (141) |
| Others | **(255)** | (203) |
| Total | **(969)** | (758) |
| Net fee and commission income | **23,422** | 20,168 |

## 5 NET TRADING GAIN

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| Debt securities | **(94)** | 378 |
| Derivatives | **431** | 932 |
| Equity instruments | **808** | (111) |
| Others | **148** | 93 |
| Total | **1,293** | 1,292 |

For the six months ended 30 June 2009, trading gain related to financial assets designated as at fair value through profit or loss of the Group amounted to RMB687 million (for the six months ended 30 June 2008: RMB756 million). Trading gain related to financial liabilities designated as at fair value through profit or loss of the Group amounted to RMB25 million (for the six months ended 30 June 2008: RMB5 million).

(Expressed in millions of Renminbi unless otherwise stated)

## 6 DIVIDEND INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| Dividend income from listed trading equity investments | **3** | 10 |
| Dividend income from available-for-sale equity investments | | |
| — Listed | **11** | 40 |
| — Unlisted | **40** | 25 |
| Total | **54** | 75 |

## 7 NET GAIN ARISING FROM INVESTMENT SECURITIES

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| Net gain on sale of available-for-sale financial assets | **888** | 1,013 |
| Net revaluation gain reclassified from other comprehensive income on disposal | **966** | 316 |
| Net gain on sale of held-to-maturity investments | **1,604** | 317 |
| Total | **3,458** | 1,646 |

## 8 OTHER OPERATING INCOME, NET

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| Net foreign exchange (loss)/gain | **(38)** | 759 |
| Net gain on disposal of fixed assets | **44** | 84 |
| Net gain on disposal of repossessed assets | **180** | 28 |
| Others | **584** | 604 |
| Total | **770** | 1,475 |

Net foreign exchange gains or losses includes gains and losses in connection with the translation of foreign currency denominated monetary assets and liabilities, and net realised and unrealised gains and losses on foreign exchange derivatives (including those foreign exchange swaps, foreign exchange options and cross currency swaps entered into in order to economically hedge long positions in foreign currency assets).

(Expressed in millions of Renminbi unless otherwise stated)

## 9 OPERATING EXPENSES

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| Staff costs | | |
| — Salaries, bonuses, allowances and subsidies | **14,747** | 15,592 |
| — Defined contribution retirement schemes | **2,340** | 2,091 |
| — Other social insurance and welfare | **2,673** | 2,632 |
| — Housing funds | **1,353** | 1,220 |
| — Union running costs and employee education costs | **512** | 539 |
| — Compensation to employees for termination of employment relationship | **8** | 19 |
| | **21,633** | 22,093 |
| Premises and equipment expenses | | |
| — Depreciation charges | **4,390** | 3,986 |
| — Rent and property management expenses | **1,954** | 1,718 |
| — Maintenance | **508** | 599 |
| — Utilities | **633** | 596 |
| — Others | **363** | 326 |
| | **7,848** | 7,225 |
| Amortisation expenses | **937** | 501 |
| Business tax and surcharges | **8,036** | 7,717 |
| Audit fees | **68** | 82 |
| Other general and administrative expenses | **7,663** | 8,575 |
| Total | **46,185** | 46,193 |

(Expressed in millions of Renminbi unless otherwise stated)

## 10 IMPAIRMENT LOSSES

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| Loans and advances to customers | | |
| — Additions | **16,445** | 15,905 |
| — Releases | **(6,171)** | (4,447) |
| Available-for-sale debt securities | **1,825** | 2,032 |
| Available-for-sale equity investments | **—** | 107 |
| Held-to-maturity investments | **397** | 989 |
| Debt securities classified as receivables | **(8)** | (636) |
| Fixed assets | **—** | 21 |
| Other assets | **331** | (65) |
| Total | **12,819** | 13,906 |

## 11 INCOME TAX

### (1) Income tax

| | | Six months ended 30 June | |
|---|---|---|---|
| | Note | **2009** | 2008 |
| Current tax | | | |
| — Mainland China | | **16,957** | 17,215 |
| — Hong Kong | | **175** | 155 |
| — Other countries and regions | | **21** | 14 |
| | | **17,153** | 17,384 |
| Adjustments for prior years | (b) | **3,224** | (296) |
| Deferred tax recognised in current period | (b) | **(3,749)** | (125) |
| Total | | **16,628** | 16,963 |

Notes:

(a) The provisions of income taxes for Mainland China and Hong Kong are calculated at 25% and 16.5% of the estimated taxable income from Mainland and Hong Kong operations for the period respectively. Taxation for other overseas operations is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

(b) According to the Implementation Rules of Enterprise Income Tax Law and Circular of the Ministry of Finance and the State Administration of Taxation on the Deduction of Loan Loss Provisions by Financial Enterprises before Paying Enterprise Income Tax (Cai Shui [2009] No. 64), impairment allowances are deductible only if they are provided for loans and credit-related risky assets and do not exceed 1% of such asset balances. Impairment allowances for other risky assets are no longer deductible before tax. The Bank recognised the deferred tax assets of the impairment allowances for non-credit-related assets provided since 1 January 2008 in the first half of 2009. The amount of adjustments on income tax for prior years that is related to the policy changes mentioned above was RMB3,106 million.

(Expressed in millions of Renminbi unless otherwise stated)

## 11 INCOME TAX (continued)

### (2) Reconciliation between income tax and accounting profit

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| Profit before tax | **72,469** | 75,655 |
| Income tax calculated at statutory tax rate | **18,117** | 18,914 |
| Non-deductible expenses | | |
| — Impairment losses and bad debt write-off | **55** | 5 |
| — Others | **104** | 161 |
| | **159** | 166 |
| Non-taxable income | | |
| — Interest income from PRC government bonds | **(1,725)** | (1,593) |
| — Others | **(41)** | (228) |
| | **(1,766)** | (1,821) |
| Total | **16,510** | 17,259 |
| Adjustments on income tax for prior years which affect profit or loss | **118** | (296) |
| Income tax | **16,628** | 16,963 |

## 12 EARNINGS PER SHARE

Basic earnings per share for the six months ended 30 June 2009 and 2008 have been computed by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares that were in issue during the periods. There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the six months ended 30 June 2009 and 2008.

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| Net profit attributable to shareholders of the Bank | **55,806** | 58,667 |
| Weighted average number of shares (in million shares) | **233,689** | 233,689 |
| Basic and diluted earnings per share attributable to shareholders of the Bank (RMB) | **0.24** | 0.25 |

(Expressed in millions of Renminbi unless otherwise stated)

## 13 CASH AND DEPOSITS WITH CENTRAL BANKS

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Cash | | **34,243** | 34,313 | **34,079** | 34,110 |
| Deposits with central banks | | | | | |
| — Statutory deposit reserves | (1) | **1,101,722** | 921,817 | **1,101,567** | 921,680 |
| — Surplus deposit reserves | (2) | **113,670** | 277,981 | **113,670** | 277,924 |
| — Fiscal deposits | | **12,717** | 13,339 | **12,717** | 13,339 |
| | | **1,228,109** | 1,213,137 | **1,227,954** | 1,212,943 |
| Total | | **1,262,352** | 1,247,450 | **1,262,033** | 1,247,053 |

Notes:

(1) The Group places statutory deposit reserves with the People's Bank of China ("PBC") and overseas central banks where it has operations. The statutory deposit reserves are not available for use in the Group's daily business.

As at the balance sheet date, the statutory deposit reserve rates applicable to domestic branches of the Bank were as follows:

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| Reserve rate for RMB deposits | **15.5%** | 15.5% |
| Reserve rate for foreign currency deposits | **5%** | 5% |

The statutory RMB deposit reserve rates applicable to domestic subsidiaries of the Group are determined by PBC.

The amounts of statutory deposit reserves placed with the central banks of overseas countries are determined by local jurisdictions.

(2) The surplus deposit reserve maintained with the PBC is mainly for the purpose of clearing.

(Expressed in millions of Renminbi unless otherwise stated)

## 14 DEPOSITS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

### (1) Analysed by type of counterparty

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Deposits in Mainland China | | | | |
| — Banks | **21,191** | 9,821 | **20,805** | 7,601 |
| — Non-bank financial institutions | **11,432** | 10,234 | **11,432** | 10,234 |
| | **32,623** | 20,055 | **32,237** | 17,835 |
| Deposits in overseas | | | | |
| — Banks | **35,476** | 11,385 | **34,419** | 10,611 |
| — Non-bank financial institutions | **444** | 1,677 | **—** | — |
| | **35,920** | 13,062 | **34,419** | 10,611 |
| Gross balances | **68,543** | 33,117 | **66,656** | 28,446 |
| Allowances for impairment losses (Note 32) | **(19)** | (21) | **(19)** | (21) |
| Net balances | **68,524** | 33,096 | **66,637** | 28,425 |

### (2) Analysed by legal form of counterparty

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| PRC policy banks | **1,000** | — | **1,000** | — |
| PRC state-owned banks and non-bank financial institutions | **10,899** | 10,253 | **10,899** | 10,253 |
| PRC joint-stock banks and non-bank financial institutions | **42,402** | 10,646 | **41,736** | 8,426 |
| Foreign-invested banks and non-bank financial institutions | **14,242** | 12,218 | **13,021** | 9,767 |
| Gross balances | **68,543** | 33,117 | **66,656** | 28,446 |
| Allowances for impairment losses (Note 32) | **(19)** | (21) | **(19)** | (21) |
| Net balances | **68,524** | 33,096 | **66,637** | 28,425 |

(Expressed in millions of Renminbi unless otherwise stated)

## 15 PLACEMENTS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

### (1) Analysed by type of counterparty

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Placements in Mainland China | | | | |
| — Banks | **13,055** | 13,912 | **13,055** | 13,912 |
| — Non-bank financial institutions | **3,511** | 291 | **3,511** | 291 |
| | **16,566** | 14,203 | **16,566** | 14,203 |
| Placements in overseas | | | | |
| — Banks | **2,684** | 2,866 | **2,772** | 14,456 |
| — Non-bank financial institutions | **363** | 19 | **363** | 19 |
| | **3,047** | 2,885 | **3,135** | 14,475 |
| Gross balances | **19,613** | 17,088 | **19,701** | 28,678 |
| Allowances for impairment losses (Note 32) | **(174)** | (252) | **(174)** | (252) |
| Net balances | **19,439** | 16,836 | **19,527** | 28,426 |

### (2) Analysed by legal form of counterparty

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| PRC policy banks | **1,630** | — | **1,630** | — |
| PRC state-owned banks and non-bank financial institutions | **34** | 5,054 | **34** | 5,054 |
| PRC joint-stock banks and non-bank financial institutions | **14,392** | 5,411 | **14,392** | 5,411 |
| Foreign-invested banks and non-bank financial institutions | **3,557** | 6,623 | **3,645** | 18,213 |
| Gross balances | **19,613** | 17,088 | **19,701** | 28,678 |
| Allowances for impairment losses (Note 32) | **(174)** | (252) | **(174)** | (252) |
| Net balances | **19,439** | 16,836 | **19,527** | 28,426 |

(Expressed in millions of Renminbi unless otherwise stated)

## 16 TRADING FINANCIAL ASSETS

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Financial assets held for trading purpose | (1) | | | | |
| — Debt securities | (a) | **30,177** | 44,693 | **29,282** | 44,491 |
| — Equity instruments | (b) | **591** | 227 | **—** | — |
| — Funds | (c) | **—** | 93 | **—** | — |
| Subtotal | | **30,768** | 45,013 | **29,282** | 44,491 |
| Financial assets designated as at fair value through profit or loss | (2) | | | | |
| — Debt securities | (a) | **3,334** | 1,495 | **—** | — |
| — Equity instruments | (b) | **2,899** | 2,849 | **—** | — |
| — Convertible bonds | (c) | **937** | 952 | **—** | — |
| Subtotal | | **7,170** | 5,296 | **—** | — |
| Total | | **37,938** | 50,309 | **29,282** | 44,491 |

(Expressed in millions of Renminbi unless otherwise stated)

## 16 TRADING FINANCIAL ASSETS (continued)

### (1) Financial assets held for trading purpose

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| (a) Debt securities | | | | |
| Issued by entities in Mainland China | | | | |
| — Government | **981** | 897 | **398** | 897 |
| — The PBC | **17,581** | 34,375 | **17,581** | 34,375 |
| — Policy banks | **3,887** | 3,719 | **3,886** | 3,717 |
| — Banks and non-bank financial institutions | **6,034** | 2,540 | **6,059** | 2,537 |
| — State-owned enterprises | **802** | 726 | **802** | 726 |
| — Joint-stock enterprises | **191** | 774 | **191** | 774 |
| Issued by overseas entities | | | | |
| — Governments | **—** | 34 | **—** | 34 |
| — Banks and non-bank financial institutions | **701** | 1,178 | **365** | 981 |
| — Others | **—** | 450 | **—** | 450 |
| (b) Equity instruments | | | | |
| Issued by entities in Mainland China | | | | |
| — Joint-stock enterprises | **137** | 195 | **—** | — |
| — Banks and non-bank financial institutions | **—** | 6 | **—** | — |
| Issued by overseas entities | | | | |
| — Joint-stock enterprises | **454** | 26 | **—** | — |
| (c) Funds | | | | |
| Issued by joint-stock enterprises in Mainland China | **—** | 93 | **—** | — |
| Total | **30,768** | 45,013 | **29,282** | 44,491 |
| Listed | **591** | 1,529 | **—** | 1,209 |
| — of which in Hong Kong | **565** | 304 | **—** | 86 |
| Unlisted | **30,177** | 43,484 | **29,282** | 43,282 |
| Total | **30,768** | 45,013 | **29,282** | 44,491 |

(Expressed in millions of Renminbi unless otherwise stated)

## 16 TRADING FINANCIAL ASSETS (continued)

### (2) Financial assets designated as at fair value through profit or loss

| | | Group | |
|---|---|---|---|
| | | **30 June 2009** | 31 December 2008 |
| (a) | Debt securities | | |
| | Issued by entities in Mainland China | | |
| | — Policy banks | **274** | — |
| | — Banks and non-bank financial institutions | **575** | — |
| | — Joint-stock enterprises | **1,397** | 1,243 |
| | Issued by overseas entities | | |
| | — Banks and non-bank financial institutions | **259** | 252 |
| | — Others | **829** | — |
| (b) | Equity instruments issued by | | |
| | Joint-stock enterprises in Mainland China | **945** | 976 |
| | Overseas joint-stock enterprises | **1,954** | 1,873 |
| (c) | Convertible bonds issued by | | |
| | Joint-stock enterprises in Mainland China | **937** | 952 |
| | Total | **7,170** | 5,296 |
| | Listed | **931** | 458 |
| | — of which in Hong Kong | **700** | 222 |
| | Unlisted | **6,239** | 4,838 |
| | Total | **7,170** | 5,296 |

There was no significant limitation on the ability of the Group and the Bank to dispose of trading financial assets.

(Expressed in millions of Renminbi unless otherwise stated)

# 17 DERIVATIVES

## (1) Analysed by type of contract

***Group***

| | 30 June 2009 | | | 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | **Notional amounts** | **Assets** | **Liabilities** | Notional amounts | Assets | Liabilities |
| Interest rate contracts | **180,227** | **4,694** | **4,877** | 183,695 | 9,016 | 9,451 |
| Exchange rate contracts | **448,158** | **5,731** | **5,553** | 489,431 | 11,758 | 9,114 |
| Precious metal contracts | **—** | **—** | **—** | 510 | 10 | — |
| Equity instrument contracts | **821** | **605** | **—** | 806 | 515 | — |
| Total | **629,206** | **11,030** | **10,430** | 674,442 | 21,299 | 18,565 |

***Bank***

| | 30 June 2009 | | | 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | **Notional amounts** | **Assets** | **Liabilities** | Notional amounts | Assets | Liabilities |
| Interest rate contracts | **178,332** | **4,661** | **4,864** | 183,037 | 8,981 | 9,395 |
| Exchange rate contracts | **405,629** | **5,296** | **5,228** | 472,676 | 11,344 | 8,708 |
| Precious metal contracts | **—** | **—** | **—** | 510 | 10 | — |
| Equity instrument contracts | **34** | **—** | **—** | 34 | — | — |
| Total | **583,995** | **9,957** | **10,092** | 656,257 | 20,335 | 18,103 |

(Expressed in millions of Renminbi unless otherwise stated)

## 17 DERIVATIVES (continued)

### (2) Analysed by credit risk-weighted amount

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Interest rate contracts | **5,141** | 9,304 | **5,140** | 9,297 |
| Exchange rate contracts | **6,225** | 7,070 | **5,659** | 6,665 |
| Precious metal contracts | **—** | 1 | **—** | 1 |
| Equity instrument contracts | **610** | 526 | **—** | — |
| Total | **11,976** | 16,901 | **10,799** | 15,963 |

The notional amounts of derivatives only represent the unsettled transaction volume as at balance sheet date. They do not represent the amounts at risk. The credit risk-weighted amount is computed in accordance with the rules set out by China Banking Regulatory Commission ("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.

## 18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

| | Group and Bank | |
|---|---|---|
| | **30 June 2009** | 31 December 2008 |
| Debt securities | | |
| — Government bonds | **721,528** | 143,622 |
| — Bills issued by the PBC | **28,138** | 20,164 |
| — Debt securities issued by policy banks | **40,002** | 14,651 |
| — Others | **1,249** | 1,051 |
| | **790,917** | 179,488 |
| Loans | **4,362** | 5,158 |
| Bills | **73,173** | 23,913 |
| Gross balances | **868,452** | 208,559 |
| Allowances for impairment losses (Note 32) | **—** | (11) |
| Net balances | **868,452** | 208,548 |

(Expressed in millions of Renminbi unless otherwise stated)

## 19 INTEREST RECEIVABLE

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Deposits with central banks | **508** | 567 | **508** | 567 |
| Deposits with banks and non-bank financial institutions | **76** | 40 | **67** | 29 |
| Placements with banks and non-bank financial institutions | **18** | 29 | **17** | 117 |
| Financial assets held under resale agreements | **1,296** | 410 | **1,296** | 410 |
| Loans and advances to customers | **8,519** | 9,298 | **8,478** | 9,214 |
| Investment securities | **29,267** | 27,845 | **29,198** | 27,837 |
| Others | **95** | 129 | **94** | 124 |
| Gross balances | **39,779** | 38,318 | **39,658** | 38,298 |
| Allowances for impairment losses (Note 32) | **(1)** | (1) | **(1)** | (1) |
| Net balances | **39,778** | 38,317 | **39,657** | 38,297 |

(Expressed in millions of Renminbi unless otherwise stated)

## 20 LOANS AND ADVANCES TO CUSTOMERS

### (1) Analysed by nature

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Corporate loans and advances | | | | |
| — Loans | **3,305,511** | 2,790,631 | **3,279,898** | 2,765,460 |
| — Finance leases | **4,723** | 4,514 | **—** | — |
| | **3,310,234** | 2,795,145 | **3,279,898** | 2,765,460 |
| Personal loans and advances | | | | |
| — Residential mortgages | **728,131** | 615,429 | **714,553** | 602,982 |
| — Consumer loans | **83,127** | 74,964 | **83,126** | 74,964 |
| — Credit cards | **28,182** | 23,291 | **27,908** | 23,033 |
| — Others | **123,728** | 121,796 | **122,403** | 120,385 |
| | **963,168** | 835,480 | **947,990** | 821,364 |
| Discounted bills | **251,955** | 163,318 | **251,955** | 163,318 |
| Gross loans and advances to customers | **4,525,357** | 3,793,943 | **4,479,843** | 3,750,142 |
| Allowances for impairment losses (Note 32) | **(116,205)** | (110,368) | **(115,986)** | (110,202) |
| — Individual assessment | **(47,860)** | (50,548) | **(47,750)** | (50,478) |
| — Collective assessment | **(68,345)** | (59,820) | **(68,236)** | (59,724) |
| Net loans and advances to customers | **4,409,152** | 3,683,575 | **4,363,857** | 3,639,940 |

(Expressed in millions of Renminbi unless otherwise stated)

## 20 LOANS AND ADVANCES TO CUSTOMERS (continued)

### (2) Analysed by assessment method of allowances for impairment losses

| | Loans and advances for which allowances are collectively assessed (Note (a)) | Impaired loans and advances (Note (b)) for which allowances are collectively assessed | Impaired loans and advances (Note (b)) for which allowances are individually assessed | Total |
|---|---|---|---|---|
| **Group** | | | | |
| As at 30 June 2009 | | | | |
| Gross loans and advances to customers | **4,448,149** | **8,292** | **68,916** | **4,525,357** |
| Allowances for impairment losses | **(62,850)** | **(5,495)** | **(47,860)** | **(116,205)** |
| Net loans and advances to customers | **4,385,299** | **2,797** | **21,056** | **4,409,152** |
| As at 31 December 2008 | | | | |
| Gross loans and advances to customers | 3,710,061 | 8,840 | 75,042 | 3,793,943 |
| Allowances for impairment losses | (54,122) | (5,698) | (50,548) | (110,368) |
| Net loans and advances to customers | 3,655,939 | 3,142 | 24,494 | 3,683,575 |
| **Bank** | | | | |
| As at 30 June 2009 | | | | |
| Gross loans and advances to customers | **4,402,782** | **8,292** | **68,769** | **4,479,843** |
| Allowances for impairment losses | **(62,741)** | **(5,495)** | **(47,750)** | **(115,986)** |
| Net loans and advances to customers | **4,340,041** | **2,797** | **21,019** | **4,363,857** |
| As at 31 December 2008 | | | | |
| Gross loans and advances to customers | 3,666,346 | 8,840 | 74,956 | 3,750,142 |
| Allowances for impairment losses | (54,026) | (5,698) | (50,478) | (110,202) |
| Net loans and advances to customers | 3,612,320 | 3,142 | 24,478 | 3,639,940 |

## 20 LOANS AND ADVANCES TO CUSTOMERS (continued)

### (2) Analysed by assessment method of allowances for impairment losses (continued)

Notes:

(a) Loans and advances assessed on a collective basis for impairment bear relatively insignificant impairment losses as a proportion of the total portfolio. These loans and advances are those graded normal or special mention.

(b) Impaired loans and advances include loans for which objective evidence of impairment exists and assessed:

— individually (including corporate loans and advances which are graded substandard, doubtful or loss); or

— collectively; these are portfolios of homogeneous loans (including personal loans and advances which are graded substandard, doubtful or loss).

The proportion of impaired loans and advances of the Group to gross loans and advances as at 30 June 2009 is 1.71% (as at 31 December 2008: 2.21%).

The proportion of impaired loans and advances of the Bank to gross loans and advances as at 30 June 2009 is 1.72% (as at 31 December 2008: 2.23%).

(c) The definitions of the loan classifications stated in Notes (a) and (b) above are set out in Note 58(1).

(d) As at 30 June 2009, the loans and advances of the Group for which the impairment allowances were individually assessed amounted to RMB68,916 million (as at 31 December 2008: RMB75,042 million). The covered portion and uncovered portion of these loans and advances were RMB15,605 million (as at 31 December 2008: RMB20,426 million) and RMB53,311 million (as at 31 December 2008: RMB54,616 million) respectively. The fair value of collateral held against these loans and advances amounted to RMB16,302 million (as at 31 December 2008: RMB21,126 million). The individual impairment allowances made against these loans and advances were RMB47,860 million (as at 31 December 2008: RMB50,548 million).

As at 30 June 2009, the loans and advances of the Bank for which the impairment allowances were individually assessed amounted to RMB68,769 million (as at 31 December 2008: RMB74,956 million). The covered portion and uncovered portion of these loans and advances were RMB15,592 million (as at 31 December 2008: RMB20,421 million) and RMB53,177 million (as at 31 December 2008: RMB54,535 million) respectively. The fair value of collateral held against these loans and advances amounted to RMB16,277 million (as at 31 December 2008: RMB21,120 million). The individual impairment allowances made against these loans and advances were RMB47,750 million (as at 31 December 2008: RMB50,478 million).

The above collateral includes land, buildings and equipment, etc. The fair value of collateral was estimated by the Group with reference to the latest available external valuations adjusted after taking into account the current realisation experience as well as the market situation.

(Expressed in millions of Renminbi unless otherwise stated)

## 20 LOANS AND ADVANCES TO CUSTOMERS (continued)

### (3) Movements of allowances for impairment losses

***Group***

| | | Six months ended 30 June 2009 | | | |
|---|---|---|---|---|---|
| | | Allowances for loans and advances which are collectively assessed | Allowances for impaired loans and advances | | |
| | Note | | which are collectively assessed | which are individually assessed | Total |
| As at 1 January | | **54,122** | **5,698** | **50,548** | **110,368** |
| Charge for the period | | **8,728** | **17** | **7,700** | **16,445** |
| Release during the period | | **—** | **—** | **(6,171)** | **(6,171)** |
| Unwinding of discount | | **—** | **—** | **(707)** | **(707)** |
| Transfers out | (a) | **—** | **(4)** | **(155)** | **(159)** |
| Write-offs | | **—** | **(228)** | **(3,479)** | **(3,707)** |
| Recoveries | | **—** | **12** | **124** | **136** |
| As at 30 June | | **62,850** | **5,495** | **47,860** | **116,205** |

| | | Year ended 31 December 2008 | | | |
|---|---|---|---|---|---|
| | | Allowances for loans and advances which are collectively assessed | Allowances for impaired loans and advances | | |
| | Note | | which are collectively assessed | which are individually assessed | Total |
| 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 | (a) | — | (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 |

(Expressed in millions of Renminbi unless otherwise stated)

## 20 LOANS AND ADVANCES TO CUSTOMERS (continued)

### (3) Movements of allowances for impairment losses (continued)

***Bank***

| | Note | Six months ended 30 June 2009 | | | |
|---|---|---|---|---|---|
| | | Allowances for loans and advances which are collectively assessed | Allowances for impaired loans and advances | | |
| | | | which are collectively assessed | which are individually assessed | Total |
| As at 1 January | | **54,026** | **5,698** | **50,478** | **110,202** |
| Charge for the period | | **8,715** | **18** | **7,682** | **16,415** |
| Release during the period | | **—** | **—** | **(6,170)** | **(6,170)** |
| Unwinding of discount | | **—** | **—** | **(707)** | **(707)** |
| Transfers out | (a) | **—** | **(4)** | **(155)** | **(159)** |
| Write-offs | | **—** | **(228)** | **(3,476)** | **(3,704)** |
| Recoveries | | **—** | **11** | **98** | **109** |
| As at 30 June | | **62,741** | **5,495** | **47,750** | **115,986** |

| | Note | Year ended 31 December 2008 | | | |
|---|---|---|---|---|---|
| | | Allowances for loans and advances which are collectively assessed | Allowances for impaired loans and advances | | |
| | | | which are collectively assessed | which are individually assessed | Total |
| As at 1 January | | 35,733 | 4,928 | 48,183 | 88,844 |
| Charge for the year | | 18,293 | 1,402 | 25,073 | 44,768 |
| Release during the year | | — | — | (8,611) | (8,611) |
| Unwinding of discount | | — | — | (1,564) | (1,564) |
| Transfers out | (a) | — | (20) | (6,820) | (6,840) |
| Write-offs | | — | (621) | (5,950) | (6,571) |
| Recoveries | | — | 9 | 167 | 176 |
| As at 31 December | | 54,026 | 5,698 | 50,478 | 110,202 |

Notes:

(a) Transfers out include the transfer of allowances for impairment losses to repossessed assets and on the disposal of non-performing loans.

(Expressed in millions of Renminbi unless otherwise stated)

## 20 LOANS AND ADVANCES TO CUSTOMERS (continued)

### (4) Analysed by legal form of borrowers

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Corporate loans and advances | | | | |
| — State-owned enterprises | **2,001,336** | 1,654,275 | **2,000,058** | 1,654,185 |
| — Private enterprises | **764,424** | 649,105 | **764,375** | 649,105 |
| — Foreign invested enterprises | **189,673** | 170,929 | **189,673** | 170,929 |
| — Collectively-controlled enterprises | **73,393** | 58,457 | **73,393** | 58,457 |
| — Others | **276,685** | 257,865 | **252,399** | 232,784 |
| Gross corporate loans and advances | **3,305,511** | 2,790,631 | **3,279,898** | 2,765,460 |
| Finance leases | **4,723** | 4,514 | **—** | — |
| Personal loans and advances | **963,168** | 835,480 | **947,990** | 821,364 |
| Discounted bills | **251,955** | 163,318 | **251,955** | 163,318 |
| Gross loans and advances to customers | **4,525,357** | 3,793,943 | **4,479,843** | 3,750,142 |
| Allowances for impairment losses (Note 32) | **(116,205)** | (110,368) | **(115,986)** | (110,202) |
| Net loans and advances to customers | **4,409,152** | 3,683,575 | **4,363,857** | 3,639,940 |

(Expressed in millions of Renminbi unless otherwise stated)

## 20 LOANS AND ADVANCES TO CUSTOMERS (continued)

### (5) Overdue loans analysed by overdue period

***Group***

| | 30 June 2009 | | | | |
|---|---|---|---|---|---|
| | Overdue within three months | Overdue between three months and one year | Overdue between one year and three years | Overdue over three years | Total |
| Unsecured loans | **1,662** | **1,888** | **906** | **1,358** | **5,814** |
| Guaranteed loans | **3,968** | **6,625** | **6,277** | **6,079** | **22,949** |
| Loans secured by tangible assets other than monetary assets | **23,578** | **14,785** | **12,314** | **8,172** | **58,849** |
| Loans secured by monetary assets | **880** | **1,673** | **2,408** | **1,392** | **6,353** |
| Total | **30,088** | **24,971** | **21,905** | **17,001** | **93,965** |
| As a percentage of gross loans and advances to customers | **0.66%** | **0.56%** | **0.48%** | **0.38%** | **2.08%** |

| | 31 December 2008 | | | | |
|---|---|---|---|---|---|
| | Overdue within three months | Overdue between three months and one year | Overdue between one year and three years | Overdue over three years | Total |
| Unsecured loans | 1,839 | 517 | 1,169 | 1,500 | 5,025 |
| Guaranteed loans | 4,569 | 3,458 | 6,699 | 6,523 | 21,249 |
| Loans secured by tangible assets other than monetary assets | 28,399 | 11,873 | 12,210 | 8,993 | 61,475 |
| Loans secured by monetary assets | 4,207 | 3,341 | 1,708 | 1,049 | 10,305 |
| Total | 39,014 | 19,189 | 21,786 | 18,065 | 98,054 |
| As a percentage of gross loans and advances to customers | 1.03% | 0.5% | 0.57% | 0.48% | 2.58% |

(Expressed in millions of Renminbi unless otherwise stated)

## 20 LOANS AND ADVANCES TO CUSTOMERS (continued)

### (5) Overdue loans analysed by overdue period (continued)

***Bank***

| | 30 June 2009 | | | | |
|---|---|---|---|---|---|
| | Overdue within three months | Overdue between three months and one year | Overdue between one year and three years | Overdue over three years | Total |
| Unsecured loans | 1,582 | 1,818 | 906 | 1,357 | 5,663 |
| Guaranteed loans | 3,965 | 6,625 | 6,277 | 6,079 | 22,946 |
| Loans secured by tangible assets other than monetary assets | 23,460 | 14,746 | 12,312 | 8,172 | 58,690 |
| Loans secured by monetary assets | 872 | 1,673 | 2,408 | 1,392 | 6,345 |
| Total | 29,879 | 24,862 | 21,903 | 17,000 | 93,644 |
| As a percentage of gross loans and advances to customers | 0.67% | 0.55% | 0.49% | 0.38% | 2.09% |

| | 31 December 2008 | | | | |
|---|---|---|---|---|---|
| | Overdue within three months | Overdue between three months and one year | Overdue between one year and three years | Overdue over three years | Total |
| Unsecured loans | 1,831 | 496 | 1,169 | 1,499 | 4,995 |
| Guaranteed loans | 4,569 | 3,458 | 6,699 | 6,523 | 21,249 |
| Loans secured by tangible assets other than monetary assets | 28,353 | 11,872 | 12,208 | 8,993 | 61,426 |
| Loans secured by monetary assets | 4,207 | 3,341 | 1,708 | 1,049 | 10,305 |
| Total | 38,960 | 19,167 | 21,784 | 18,064 | 97,975 |
| As a percentage of gross loans and advances to customers | 1.04% | 0.51% | 0.58% | 0.48% | 2.61% |

Overdue loans represent loans of which the whole or part of the principal or interest are overdue for 1 day or more.

(Expressed in millions of Renminbi unless otherwise stated)

## 21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Debt securities | (1) | **551,265** | 535,379 | **550,076** | 536,049 |
| Equity instruments | (2) | **20,880** | 15,444 | **19,944** | 15,107 |
| Funds | (2) | **20** | 15 | **—** | — |
| Total | | **572,165** | 550,838 | **570,020** | 551,156 |

### (1) Debt securities

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Issued by entities in Mainland China | | | | |
| — Government | **56,950** | 29,756 | **56,950** | 29,756 |
| — The PBC | **312,146** | 371,663 | **312,146** | 371,663 |
| — Policy banks | **17,863** | 14,891 | **17,863** | 14,891 |
| — Banks and non-bank financial institutions | **57,735** | 51,001 | **57,735** | 51,001 |
| — State-owned enterprises | **60,612** | 14,668 | **60,612** | 14,668 |
| — Joint-stock enterprises | **5,840** | 2,992 | **5,840** | 2,992 |
| Issued by overseas entities | | | | |
| — Governments | **1,683** | 6,356 | **1,683** | 6,356 |
| — Central banks | **614** | 441 | **464** | 264 |
| — Policy banks | **826** | 841 | **826** | 841 |
| — Banks and non-bank financial institutions | **30,110** | 35,139 | **29,350** | 36,039 |
| — Public sector entities | **2,346** | 2,523 | **2,095** | 2,523 |
| — Others | **4,540** | 5,108 | **4,512** | 5,055 |
| Total | **551,265** | 535,379 | **550,076** | 536,049 |
| Listed | **26,900** | 31,745 | **25,661** | 31,663 |
| — of which in Hong Kong | **3,706** | 453 | **2,599** | 422 |
| Unlisted | **524,365** | 503,634 | **524,415** | 504,386 |
| Total | **551,265** | 535,379 | **550,076** | 536,049 |

(Expressed in millions of Renminbi unless otherwise stated)

## 21 AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

### (2) Equity instruments and funds

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Debt equity swap investments | (a), (b) | **18,675** | 14,359 | **18,675** | 14,359 |
| Other equity instruments | | **2,205** | 1,085 | **1,269** | 748 |
| Funds | | **20** | 15 | **—** | — |
| Total | | **20,900** | 15,459 | **19,944** | 15,107 |
| Listed | | **15,930** | 10,037 | **15,921** | 10,035 |
| — of which in Hong Kong | | **747** | 393 | **747** | 393 |
| Unlisted | | **4,970** | 5,422 | **4,023** | 5,072 |
| Total | | **20,900** | 15,459 | **19,944** | 15,107 |

Notes:

(a) Pursuant to the arrangement by the PRC government in 1999, the Group acquired unlisted legal person shares ("debt equity swap investments") in certain corporate borrowers in lieu of repayments of loans granted to them. Pursuant to a notice (the "Notice") jointly issued by the State Economic & Trade Commission of the PRC and the PBC on 5 July 1999, commercial banks are prohibited from being involved in management of the operations of these corporate borrowers even though the banks hold equity interests through the above debt equity swap arrangement.

The Group is required to comply with the Notice and has not controlled the financial and operating policy decisions of these corporations nor exerted significant influence over these policies. In substance, the Group does not have any control or significant influence over these corporations. The Group has been advised by its external legal counsel that such direct ownership in these debt equity swap investments does not violate any of the prevailing laws and regulations in the PRC.

(b) Certain of these unlisted legal person shares were converted into listed A shares with lock-up period restriction. The fair value of these restricted shares is estimated based on the quoted market price of the corresponding listed shares, adjusted for the impact of the restriction. The adjustment, which is made by reference to historical volatility of the respective shares and the restriction, is estimated using the Asian Option Model. The Group calculated the fair value for listed A shares with no disposal restriction based on the quoted market prices as at the balance sheet date. For the six months ended 30 June 2009, the increase in fair value was RMB5,369 million (for the six months ended 30 June 2008: decreased by RMB12,294 million).

(Expressed in millions of Renminbi unless otherwise stated)

## 22 HELD-TO-MATURITY INVESTMENTS

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Issued by entities in Mainland China | | | | |
| — Government | **390,764** | 320,259 | **390,764** | 320,259 |
| — The PBC | **446,788** | 354,437 | **446,788** | 354,437 |
| — Policy banks | **82,616** | 58,905 | **82,616** | 58,905 |
| — Banks and non-bank financial institutions | **267,391** | 249,868 | **267,340** | 249,868 |
| — State-owned enterprises | **6,291** | 6,276 | **6,291** | 6,276 |
| — Joint-stock enterprises | **3,018** | 2,895 | **3,018** | 2,895 |
| Issued by overseas entities | | | | |
| — Governments | **6,560** | 14,690 | **6,560** | 14,690 |
| — Policy banks | **683** | 2,588 | **683** | 2,588 |
| — Banks and non-bank financial institutions | **15,924** | 26,866 | **15,754** | 26,866 |
| — Public sector entities | **4,865** | 10,826 | **4,865** | 10,826 |
| — Others | **83** | 1,725 | **83** | 1,725 |
| Gross balances | **1,224,983** | 1,049,335 | **1,224,762** | 1,049,335 |
| Allowance for impairment losses (Note 32) | **(7,210)** | (7,552) | **(7,210)** | (7,552) |
| Net balances | **1,217,773** | 1,041,783 | **1,217,552** | 1,041,783 |
| Listed | **14,350** | 36,831 | **14,180** | 36,831 |
| — of which in Hong Kong | **—** | 4,112 | **—** | 4,112 |
| Unlisted | **1,203,423** | 1,004,952 | **1,203,372** | 1,004,952 |
| Total | **1,217,773** | 1,041,783 | **1,217,552** | 1,041,783 |
| Market value of listed securities | **15,537** | 39,633 | **15,368** | 39,633 |

The Group and the Bank sold held-to-maturity investments with a gross carrying value of RMB23,989 million prior to their maturity dates during the six months ended 30 June 2009 (for the six months ended 30 June 2008: RMB21,523 million), which accounts for 2.11% (for the six months ended 30 June 2008: 1.85%) of the portfolio before the disposal.

(Expressed in millions of Renminbi unless otherwise stated)

## 23 DEBT SECURITIES CLASSIFIED AS RECEIVABLES

All debt securities classified as receivables are unlisted and issued by the following entities in Mainland China:

| | Note | Group and Bank | |
|---|---|---|---|
| | | **30 June 2009** | 31 December 2008 |
| Government | | | |
| — Special government bond | (1), (3) | **49,200** | 49,200 |
| — Others | | **530** | 530 |
| The PBC | (2), (3) | **126,579** | 189,910 |
| Policy banks | | **1,123** | 1,123 |
| Cinda | (4) | **247,000** | 247,000 |
| Banks and non-bank financial institutions | | **60,441** | 62,750 |
| Joint-stock enterprises | | **1,369** | 1,369 |
| Gross balances | | **486,242** | 551,882 |
| Allowance for impairment losses (Note 32) | | **(56)** | (64) |
| Net balances | | **486,186** | 551,818 |

Notes:

(1) This represents a non-negotiable bond with a nominal value of RMB49,200 million issued by the Ministry of Finance ("MOF") in 1998 to strengthen the capital base of China Construction Bank ("CCB"). The bond matures in 2028 and bears a fixed interest rate of 2.25% per annum.

(2) Due from the PBC includes: (i) a non-transferable bill with a nominal value of RMB63,354 million issued specifically to CCB as part of the Restructuring. The majority of the proceeds paid by China Cinda Asset Management Corporation ("Cinda") on the disposal of impaired loans and advances were used to subscribe to the PBC bill. The bill bore interest at a fixed rate of 1.89% per annum and was repaid in June 2009 upon maturity; (ii) a non-transferable bill with a nominal vwalue of RMB593 million issued specifically to the Bank in June 2006 for partial settlement of loans that had been transferred to asset management companies. The bill matures in June 2011 and bears interest at a fixed rate of 1.89% per annum; and (iii) other PBC bills issued specifically to the Bank.

(3) The PBC approved the Bank's use of the special government bond and the bills with nominal values of RMB63,354 million and RMB593 million respectively issued by the PBC as eligible assets equivalent to the surplus deposit reserve at PBC for clearing purpose.

(4) Cinda issued a bond specifically to CCB in 1999 for the acquisition of CCB's impaired loans and advances at their original book value. The bond has a nominal value of RMB247,000 million and matures in September 2009. It bears interest at a fixed rate of 2.25% per annum. According to a notice issued by the MOF, starting from 1 January 2005, the MOF will provide financial support if Cinda is unable to repay the interest in full. The MOF will also provide support for the repayment of bond principal, if necessary.

(Expressed in millions of Renminbi unless otherwise stated)

## 24 INVESTMENTS IN SUBSIDIARIES

### (1) Investment cost

| | Note | 30 June 2009 | 31 December 2008 |
|---|---|---|---|
| Sing Jian Development Company Limited | | **383** | 383 |
| Sino-German Bausparkasse Corporation Limited (“Sino-German”) | | **751** | 751 |
| CCB Principal Asset Management Co., Ltd. (“CCB Principal”) | | **130** | 130 |
| CCB International Group Holdings Limited (“CCBIG”) | | **—** | — |
| CCB Financial Leasing Corporation Limited (“CCBFLCL”) | | **3,380** | 3,380 |
| Hunan Taojiang Jianxin Rural Bank Co., Ltd. (“Taojiang Rural”) | | **26** | 26 |
| China Construction Bank (London) Limited (“CCB London”) | (a) | **684** | — |
| Zhejiang Cangnan Jianxin Rural Bank Co., Ltd. (“Cangnan Rural”) | (b) | **53** | — |
| Total | | **5,407** | 4,670 |

Notes:

(a) In the first half of 2009, the Bank established a wholly-owned subsidiary, CCB London, with a registered capital of US$100 million in London, Great Britain.

(b) In the first half of 2009, the Bank and other investors established a rural bank, Cangnan Rural. The Bank made a cash contribution of RMB53 million for 35% of equity interests of Cangnan Rural and additionally obtained 16% of voting rights from certain other investors. Therefore, the Bank holds 51% of voting rights in total and has obtained a control over Cangnan Rural.

(Expressed in millions of Renminbi unless otherwise stated)

## 24 INVESTMENTS IN SUBSIDIARIES (continued)

(2) Major subsidiaries of the Group are unlisted enterprises; details of the investments in subsidiaries are as follows:

| Name of company | Place of incorporation | Particulars of the issued and paid up capital | Principal activities | % of ownership directly held by the Bank | % of ownership indirectly held by the Bank | % of voting rights held by the Bank |
|---|---|---|---|---|---|---|
| Sing Jian Development Company Limited | Hong Kong, the PRC | 300 million shares of HK$1 each | Investment | 100% | – | 100% |
| Sino-German | Tianjin, the PRC | RMB1,000 million | Home mortgage loan and deposit taking business | 75.1% | – | 75.1% |
| CCB Principal | Beijing, the PRC | RMB200 million | Fund management services | 65% | – | 65% |
| CCBIG | Hong Kong, the PRC | 1 share of HK$1 each | Investment | 100% | – | 100% |
| CCBFLCL | Beijing, the PRC | 4,500 million shares of RMB1 each | Financial leasing | 75.1% | – | 75.1% |
| Taojiang Rural | Hunan, the PRC | 50 million shares of RMB1 each | Loan and deposit taking business | 51% | – | 51% |
| CCB London (Note 24(1)(a)) | London, United Kingdom | 100 million shares of US$ 1 each | Commercial banking and related financial Services | 100% | – | 100% |
| Cangnan Rural (Note 24(1)(b)) | Zhejiang, the PRC | 150 million shares of RMB1 each | Loan and deposit taking business | 35% | – | 51% |
| Lanhye Investment Holdings Limited | British Virgin Islands | 1 share of US$ 1 each | Investment | – | 100% | 100% |
| CCB International (Holdings) Limited (“CCBI”) | Hong Kong, the PRC | 601 million shares of US$ 1 each | Investment | – | 100% | 100% |
| China Construction Bank (Asia) Corporation Limited (“CCB Asia”) | Hong Kong, the PRC | 124 million shares of HK$40 each | Commercial banking and related financial services | – | 100% | 100% |

(Expressed in millions of Renminbi unless otherwise stated)

## 25 INTERESTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Details of the interests in major associates and jointly controlled entities are as follows:

| Name of company | Place of incorporation | Particulars of issued and paid up capital | Principal activity | % of ownership held | % of voting held | Total assets at period end | Total liabilities at period end | Revenue for the period | Net profit for the period |
|---|---|---|---|---|---|---|---|---|---|
| QBE Hong Kong and Shanghai Insurance Limited | Hong Kong, the PRC | 78,192,220 ordinary shares of HK$1 each | Insurance | 25.5% | 25.5% | 1,135 | 704 | 273 | 28 |
| Diamond String Limited ("DSL") | Hong Kong, the PRC | 10,000 ordinary shares of HK$1 each | Property investment | 50% | 50% | 918 | 914 | — | — |

## 26 FIXED ASSETS

### *Group*

| | Bank premises | Construction in progress | Equipment | Others | Total |
|---|---|---|---|---|---|
| ***Cost/deemed cost*** | | | | | |
| As at 1 January 2009 | **46,536** | **4,618** | **21,481** | **12,921** | **85,556** |
| Additions | **959** | **2,243** | **677** | **490** | **4,369** |
| Transfer in/(out) | **644** | **(994)** | **7** | **343** | **—** |
| Disposals | **(209)** | **(5)** | **(370)** | **(340)** | **(924)** |
| As at 30 June 2009 | **47,930** | **5,862** | **21,795** | **13,414** | **89,001** |
| ***Accumulated depreciation*** | | | | | |
| As at 1 January 2009 | **(7,926)** | **—** | **(10,450)** | **(2,700)** | **(21,076)** |
| Charge for the period | **(908)** | **—** | **(2,022)** | **(1,460)** | **(4,390)** |
| Disposals | **37** | **—** | **348** | **297** | **682** |
| As at 30 June 2009 | **(8,797)** | **—** | **(12,124)** | **(3,863)** | **(24,784)** |
| ***Allowances for impairment losses*** | | | | | |
| As at 1 January 2009 | **(507)** | **(5)** | **(3)** | **(8)** | **(523)** |
| Charge for the period | **—** | **—** | **—** | **—** | **—** |
| Disposals | **7** | **—** | **—** | **—** | **7** |
| As at 30 June 2009 | **(500)** | **(5)** | **(3)** | **(8)** | **(516)** |
| ***Net carrying value*** | | | | | |
| As at 1 January 2009 | **38,103** | **4,613** | **11,028** | **10,213** | **63,957** |
| As at 30 June 2009 | **38,633** | **5,857** | **9,668** | **9,543** | **63,701** |

(Expressed in millions of Renminbi unless otherwise stated)

## 26 FIXED ASSETS (continued)

### *Group (continued)*

| | Note | Bank premises | Construction in progress | Equipment | Others | Total |
|---|---|---|---|---|---|---|
| ***Cost/deemed cost*** | | | | | | |
| As at 1 January 2008 | | 43,728 | 1,990 | 17,787 | 12,136 | 75,641 |
| Reclassification | (1) | — | — | — | (3,177) | (3,177) |
| Additions | | 2,019 | 5,223 | 4,897 | 3,504 | 15,643 |
| Transfer in/(out) | | 1,076 | (2,549) | 22 | 1,451 | — |
| Disposals | | (287) | (46) | (1,225) | (993) | (2,551) |
| As at 31 December 2008 | | 46,536 | 4,618 | 21,481 | 12,921 | 85,556 |
| ***Accumulated depreciation*** | | | | | | |
| As at 1 January 2008 | | (6,294) | — | (7,992) | (2,554) | (16,840) |
| Reclassification | (1) | — | — | — | 1,311 | 1,311 |
| Charge for the year | | (1,751) | — | (3,621) | (2,299) | (7,671) |
| Disposals | | 119 | — | 1,163 | 842 | 2,124 |
| As at 31 December 2008 | | (7,926) | — | (10,450) | (2,700) | (21,076) |
| ***Allowances for impairment losses*** | | | | | | |
| As at 1 January 2008 | | (494) | (5) | (7) | (8) | (514) |
| Charge for the year | | (26) | — | — | (2) | (28) |
| Disposals | | 13 | — | 4 | 2 | 19 |
| As at 31 December 2008 | | (507) | (5) | (3) | (8) | (523) |
| ***Net carrying value*** | | | | | | |
| As at 1 January 2008 | | 36,940 | 1,985 | 9,788 | 9,574 | 58,287 |
| As at 31 December 2008 | | 38,103 | 4,613 | 11,028 | 10,213 | 63,957 |

(Expressed in millions of Renminbi unless otherwise stated)

## 26 FIXED ASSETS (continued)

### *Bank*

| | Bank premises | Construction in progress | Equipment | Others | Total |
|---|---|---|---|---|---|
| ***Cost/deemed cost*** | | | | | |
| As at 1 January 2009 | 46,468 | 4,585 | 21,314 | 12,747 | 85,114 |
| Additions | 959 | 2,117 | 658 | 464 | 4,198 |
| Transfer in/(out) | 644 | (994) | 7 | 343 | — |
| Disposals | (180) | (5) | (368) | (337) | (890) |
| As at 30 June 2009 | 47,891 | 5,703 | 21,611 | 13,217 | 88,422 |
| ***Accumulated depreciation*** | | | | | |
| As at 1 January 2009 | (7,901) | — | (10,348) | (2,619) | (20,868) |
| Charge for the period | (906) | — | (2,007) | (1,443) | (4,356) |
| Disposals | 33 | — | 347 | 295 | 675 |
| As at 30 June 2009 | (8,774) | — | (12,008) | (3,767) | (24,549) |
| ***Allowances for impairment losses*** | | | | | |
| As at 1 January 2009 | (507) | (5) | (3) | (8) | (523) |
| Charge for the period | — | — | — | — | — |
| Disposals | 7 | — | — | — | 7 |
| As at 30 June 2009 | (500) | (5) | (3) | (8) | (516) |
| ***Net carrying value*** | | | | | |
| As at 1 January 2009 | 38,060 | 4,580 | 10,963 | 10,120 | 63,723 |
| As at 30 June 2009 | 38,617 | 5,698 | 9,600 | 9,442 | 63,357 |

(Expressed in millions of Renminbi unless otherwise stated)

## 26 FIXED ASSETS (continued)

### *Bank* (continued)

| | Note | Bank premises | Construction in progress | Equipment | Others | Total |
|---|---|---|---|---|---|---|
| ***Cost/deemed cost*** | | | | | | |
| As at 1 January 2008 | | 43,656 | 1,990 | 17,645 | 11,979 | 75,270 |
| Reclassification | (1) | — | — | — | (3,168) | (3,168) |
| Additions | | 2,019 | 5,190 | 4,867 | 3,385 | 15,461 |
| Transfer in/(out) | | 1,076 | (2,549) | 22 | 1,451 | — |
| Disposals | | (283) | (46) | (1,220) | (900) | (2,449) |
| As at 31 December 2008 | | 46,468 | 4,585 | 21,314 | 12,747 | 85,114 |
| ***Accumulated depreciation*** | | | | | | |
| As at 1 January 2008 | | (6,271) | — | (7,911) | (2,480) | (16,662) |
| Reclassification | (1) | — | — | — | 1,310 | 1,310 |
| Charge for the year | | (1,749) | — | (3,598) | (2,271) | (7,618) |
| Disposals | | 119 | — | 1,161 | 822 | 2,102 |
| As at 31 December 2008 | | (7,901) | — | (10,348) | (2,619) | (20,868) |
| ***Allowances for impairment losses*** | | | | | | |
| As at 1 January 2008 | | (494) | (5) | (7) | (8) | (514) |
| Charge for the year | | (26) | — | — | (2) | (28) |
| Disposals | | 13 | — | 4 | 2 | 19 |
| As at 31 December 2008 | | (507) | (5) | (3) | (8) | (523) |
| ***Net carrying value*** | | | | | | |
| As at 1 January 2008 | | 36,891 | 1,985 | 9,727 | 9,491 | 58,094 |
| As at 31 December 2008 | | 38,060 | 4,580 | 10,963 | 10,120 | 63,723 |

(Expressed in millions of Renminbi unless otherwise stated)

## 26 FIXED ASSETS (continued)

Notes:

(1) The Group and the Bank reclassified the leasehold improvement expenditure to other assets in 2008.

(2) As at 30 June 2009, ownership documentation for the Group's and the Bank's bank premises with a net carrying value of RMB4,626 million (as at 31 December: RMB4,135 million) was being finalised.

(3) Analysed by remaining terms of the leases
The net carrying values of bank premises of the Group and the Bank at the balance sheet date are analysed by the remaining terms of the leases as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Long term leases (over 50 years), held overseas | **–** | 41 | **–** | 41 |
| Medium term leases (10–50 years), held overseas | **191** | 157 | **175** | 114 |
| Medium term leases (10–50 years), held in Mainland China | **37,797** | 37,081 | **37,797** | 37,081 |
| Short term leases (less than 10 years), held in Mainland China | **645** | 824 | **645** | 824 |
| Total | **38,633** | 38,103 | **38,617** | 38,060 |

(Expressed in millions of Renminbi unless otherwise stated)

## 27 LONG-TERM LEASE PREPAYMENT

| | Group | Bank |
|---|---|---|
| ***Cost/deemed cost*** | | |
| As at 1 January 2009 | 19,874 | 19,807 |
| Additions | 4 | 4 |
| Disposals | (62) | (34) |
| As at 30 June 2009 | 19,816 | 19,777 |
| ***Amortisation*** | | |
| As at 1 January 2009 | (2,418) | (2,417) |
| Charge for the period | (247) | (246) |
| Disposals | 6 | 5 |
| As at 30 June 2009 | (2,659) | (2,658) |
| ***Allowances for impairment losses*** | | |
| As at 1 January 2009 | (161) | (161) |
| Charge for the period | — | — |
| Disposals | 3 | 3 |
| As at 30 June 2009 | (158) | (158) |
| ***Net carrying value*** | | |
| As at 1 January 2009 | 17,295 | 17,229 |
| As at 30 June 2009 | 16,999 | 16,961 |

(Expressed in millions of Renminbi unless otherwise stated)

## 27 LONG-TERM LEASE PREPAYMENT (continued)

| | Group | Bank |
|---|---|---|
| ***Cost/deemed cost*** | | |
| As at 1 January 2008 | 19,753 | 19,681 |
| Additions | 240 | 240 |
| Disposals | (119) | (114) |
| As at 31 December 2008 | 19,874 | 19,807 |
| ***Amortisation*** | | |
| As at 1 January 2008 | (1,944) | (1,944) |
| Charge for the year | (492) | (490) |
| Disposals | 18 | 17 |
| As at 31 December 2008 | (2,418) | (2,417) |
| ***Allowances for impairment losses*** | | |
| As at 1 January 2008 | (159) | (159) |
| Charge for the year | (4) | (4) |
| Disposals | 2 | 2 |
| As at 31 December 2008 | (161) | (161) |
| ***Net carrying value*** | | |
| As at 1 January 2008 | 17,650 | 17,578 |
| As at 31 December 2008 | 17,295 | 17,229 |

(Expressed in millions of Renminbi unless otherwise stated)

## 28 INTANGIBLE ASSETS

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | Software | Others | Total | Software | Others | Total |
| ***Cost/deemed cost*** | | | | | | |
| As at 1 January 2009 | 2,967 | 54 | 3,021 | 2,943 | 52 | 2,995 |
| Additions | 130 | 7 | 137 | 129 | 1 | 130 |
| Disposals | (3) | (4) | (7) | (3) | (4) | (7) |
| As at 30 June 2009 | 3,094 | 57 | 3,151 | 3,069 | 49 | 3,118 |
| ***Amortisation*** | | | | | | |
| As at 1 January 2009 | (1,728) | (32) | (1,760) | (1,722) | (32) | (1,754) |
| Charge for the period | (258) | (4) | (262) | (255) | (3) | (258) |
| Disposals | 3 | 3 | 6 | 3 | 3 | 6 |
| As at 30 June 2009 | (1,983) | (33) | (2,016) | (1,974) | (32) | (2,006) |
| ***Allowances for impairment losses*** | | | | | | |
| As at 1 January 2009 | (1) | (7) | (8) | (1) | (7) | (8) |
| Charge for the period | — | — | — | — | — | — |
| Disposals | — | — | — | — | — | — |
| As at 30 June 2009 | (1) | (7) | (8) | (1) | (7) | (8) |
| ***Net carrying value*** | | | | | | |
| As at 1 January 2009 | 1,238 | 15 | 1,253 | 1,220 | 13 | 1,233 |
| As at 30 June 2009 | 1,110 | 17 | 1,127 | 1,094 | 10 | 1,104 |

(Expressed in millions of Renminbi unless otherwise stated)

## 28 INTANGIBLE ASSETS (continued)

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | Software | Others | Total | Software | Others | Total |
| ***Cost/deemed cost*** | | | | | | |
| As at 1 January 2008 | 2,415 | 71 | 2,486 | 2,413 | 64 | 2,477 |
| Additions | 571 | 25 | 596 | 549 | 18 | 567 |
| Disposals | (19) | (42) | (61) | (19) | (30) | (49) |
| As at 31 December 2008 | 2,967 | 54 | 3,021 | 2,943 | 52 | 2,995 |
| ***Amortisation*** | | | | | | |
| As at 1 January 2008 | (1,295) | (48) | (1,343) | (1,295) | (44) | (1,339) |
| Charge for the year | (452) | (7) | (459) | (446) | (7) | (453) |
| Disposals | 19 | 23 | 42 | 19 | 19 | 38 |
| As at 31 December 2008 | (1,728) | (32) | (1,760) | (1,722) | (32) | (1,754) |
| ***Allowances for impairment losses*** | | | | | | |
| As at 1 January 2008 | (1) | (8) | (9) | (1) | (8) | (9) |
| Charge for the year | — | — | — | — | — | — |
| Disposals | — | 1 | 1 | — | 1 | 1 |
| As at 31 December 2008 | (1) | (7) | (8) | (1) | (7) | (8) |
| ***Net carrying value*** | | | | | | |
| As at 1 January 2008 | 1,119 | 15 | 1,134 | 1,117 | 12 | 1,129 |
| As at 31 December 2008 | 1,238 | 15 | 1,253 | 1,220 | 13 | 1,233 |

(Expressed in millions of Renminbi unless otherwise stated)

## 29 GOODWILL

### (1) The goodwill arose from the acquisition of CCB Asia on 29 December 2006. Movement of the goodwill during the period is as follows:

| | **Six months ended 30 June 2009** | Year ended 31 December 2008 |
|---|---|---|
| As at 1 January | **1,527** | 1,624 |
| Effect of exchange difference | **2** | (97) |
| As at 30 June/31 December | **1,529** | 1,527 |

### (2) Impairment test for cash-generating unit containing goodwill

The Group calculated the recoverable amount of the cash-generating unit ("CGU") using cash flow projections based on financial forecasts approved by management covering a ten-year period. The average growth rate used by the Group is consistent with the forecasts included in industry reports. The discount rate used reflects specific risks relating to the relevant segments.

Key assumptions used for calculations of the recoverable amount of the CGU:

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| Growth rate after the ten-year period | **5%** | 5% |
| Discount rate | **9%** | 9% |

(Expressed in millions of Renminbi unless otherwise stated)

## 30 DEFERRED TAX

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Deferred tax assets | **10,784** | 7,855 | **11,071** | 8,059 |
| Deferred tax liabilities | **—** | (5) | **—** | — |
| Total | **10,784** | 7,850 | **11,071** | 8,059 |

### (1) Analysed by nature

***Group***

| | 30 June 2009 | | 31 December 2008 | |
|---|---|---|---|---|
| | **Deductible/ (taxable) temporary differences** | **Deferred tax assets/(liabilities)** | Deductible/ (taxable) temporary differences | Deferred tax assets/(liabilities) |
| Deferred tax assets | | | | |
| — Fair value adjustments | **(18,342)** | **(4,590)** | (17,618) | (4,394) |
| — Allowances for impairment losses | **54,450** | **13,613** | 41,541 | 10,385 |
| — Amortisation of debt securities issue costs | **(56)** | **(14)** | (61) | (15) |
| — Others | **7,309** | **1,775** | 7,600 | 1,879 |
| Total | **43,361** | **10,784** | 31,462 | 7,855 |

| | 30 June 2009 | | 31 December 2008 | |
|---|---|---|---|---|
| | **Deductible/ (taxable) temporary differences** | **Deferred tax assets/(liabilities)** | Deductible/ (taxable) temporary differences | Deferred tax assets/(liabilities) |
| Deferred tax liabilities | **—** | **—** | (31) | (5) |

(Expressed in millions of Renminbi unless otherwise stated)

## 30 DEFERRED TAX (continued)

### (1) Analysed by nature (continued)

***Bank***

| | 30 June 2009 | | 31 December 2008 | |
|---|---|---|---|---|
| | **Deductible/ (taxable) temporary differences** | **Deferred tax assets/(liabilities)** | Deductible/ (taxable) temporary differences | Deferred tax assets/(liabilities) |
| Deferred tax assets | | | | |
| — Fair value adjustments | **(18,342)** | **(4,590)** | (17,672) | (4,408) |
| — Allowances for impairment losses | **54,450** | **13,613** | 41,541 | 10,385 |
| — Amortisation of debt securities issue costs | **(56)** | **(14)** | (61) | (15) |
| — Others | **11,096** | **2,062** | 10,507 | 2,097 |
| Total | **47,148** | **11,071** | 34,315 | 8,059 |

### (2) Movements of deferred tax

***Group***

| | In Mainland China | | | | Overseas | | |
|---|---|---|---|---|---|---|---|
| | **Amortisation of debt securities issue costs** | **Fair value adjustments** | **Allowances for impairment losses** | **Others** | **Fair value adjustments** | **Others** | **Total** |
| | | | **Note (i)** | | | | |
| As at 1 January 2009 | **(15)** | **(4,738)** | **10,385** | **1,815** | **344** | **59** | **7,850** |
| Recognised in profit or loss | **1** | **619** | **3,228** | **(139)** | **—** | **40** | **3,749** |
| Recognised in other comprehensive income | **—** | **(591)** | **—** | **—** | **(224)** | **—** | **(815)** |
| As at 30 June 2009 | **(14)** | **(4,710)** | **13,613** | **1,676** | **120** | **99** | **10,784** |
| As at 1 January 2008 | (18) | (7,234) | 4,560 | 1,915 | 32 | 9 | (736) |
| Recognised in profit or loss | 3 | 1,064 | 5,825 | (100) | — | 50 | 6,842 |
| Recognised in other comprehensive income | — | 1,432 | — | — | 312 | — | 1,744 |
| As at 31 December 2008 | (15) | (4,738) | 10,385 | 1,815 | 344 | 59 | 7,850 |

(Expressed in millions of Renminbi unless otherwise stated)

## 30 DEFERRED TAX (continued)

### (2) Movements of deferred tax (continued)

***Bank***

| | In Mainland China | | | | Overseas | | |
|---|---|---|---|---|---|---|---|
| | Amortisation of debt securities issue costs | Fair value adjustments | Allowances for impairment losses Note (i) | Others | Fair value adjustments | Others | Total |
| As at 1 January 2009 | **(15)** | **(4,752)** | **10,385** | **1,815** | **344** | **282** | **8,059** |
| Recognised in profit or loss | **1** | **636** | **3,228** | **(145)** | **—** | **110** | **3,830** |
| Recognised in other comprehensive income | **—** | **(594)** | **—** | **—** | **(224)** | **—** | **(818)** |
| As at 30 June 2009 | **(14)** | **(4,710)** | **13,613** | **1,670** | **120** | **392** | **11,071** |
| As at 1 January 2008 | (18) | (7,223) | 4,560 | 1,915 | 32 | 165 | (569) |
| Recognised in profit or loss | 3 | 1,040 | 5,825 | (100) | — | 117 | 6,885 |
| Recognised in other comprehensive income | — | 1,431 | — | — | 312 | — | 1,743 |
| As at 31 December 2008 | (15) | (4,752) | 10,385 | 1,815 | 344 | 282 | 8,059 |

Notes:

(i) The deferred tax assets of the allowances for impairment losses recognised in profit or loss included the deferred tax assets of RMB3,106 million that is related to the policy changes mentioned in Note 11(1)(b).

(ii) The Group and the Bank did not have significant unrecognised deferred taxation at the balance sheet date.

(Expressed in millions of Renminbi unless otherwise stated)

## 31 OTHER ASSETS

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Repossessed assets | (1) | | | | |
| — Buildings | | **1,736** | 1,704 | **1,736** | 1,697 |
| — Land | | **602** | 648 | **602** | 648 |
| — Others | | **565** | 552 | **565** | 552 |
| | | **2,903** | 2,904 | **2,903** | 2,897 |
| Long-term deferred expenses | | **327** | 339 | **324** | 338 |
| Receivables from CCBIG | (2) | **—** | — | **18,391** | 14,276 |
| Other receivables | | **13,605** | 10,783 | **12,291** | 9,936 |
| Leasehold improvements | | **2,343** | 2,468 | **2,337** | 2,461 |
| Subtotal | | **19,178** | 16,494 | **36,246** | 29,908 |
| Allowances for impairment losses (Note 32) | | **(3,853)** | (3,686) | **(3,853)** | (3,686) |
| Total | | **15,325** | 12,808 | **32,393** | 26,222 |

Notes:

(1) During the six months ended 30 June 2009, the original cost of repossessed assets disposed of by the Group amounted to RMB451 million (for the six months ended 30 June 2008: RMB366 million). The Group intends to dispose of repossessed assets through various methods including auction, competitive bidding and disposal.

(2) Receivables from CCBIG represent lending to CCBIG, a wholly owned subsidiary, for acquisition of equity investments and capital injection to other subsidiaries. The receivables are unsecured, non-interest bearing and without fixed repayment term.

(Expressed in millions of Renminbi unless otherwise stated)

## 32 MOVEMENTS OF ALLOWANCES FOR IMPAIRMENT LOSSES

***Group***

| | | Six months ended 30 June 2009 | | | | |
|---|---|---|---|---|---|---|
| | Note | As at 1 January | Charge for the period/ (Write-back) | Transfer in/(out) | Write-offs | As at 30 June |
| Deposits with banks and non-bank financial institutions | 14 | 21 | (2) | — | — | 19 |
| Placements with banks and non-bank financial institutions | 15 | 252 | (78) | — | — | 174 |
| Financial assets held under resale agreements | 18 | 11 | (11) | — | — | — |
| Interest receivable | 19 | 1 | — | — | — | 1 |
| Loans and advances to customers | 20(3) | 110,368 | 10,274 | (730) | (3,707) | 116,205 |
| Held-to-maturity investments | 22 | 7,552 | 397 | 9 | (748) | 7,210 |
| Debt securities classified as receivables | 23 | 64 | (8) | — | — | 56 |
| Fixed assets | 26 | 523 | — | — | (7) | 516 |
| Long-term lease prepayment | 27 | 161 | — | — | (3) | 158 |
| Intangible assets | 28 | 8 | — | — | — | 8 |
| Other assets | 31 | 3,686 | 422 | — | (255) | 3,853 |
| Total | | 122,647 | 10,994 | (721) | (4,720) | 128,200 |

(Expressed in millions of Renminbi unless otherwise stated)

## 32 MOVEMENTS OF ALLOWANCES FOR IMPAIRMENT LOSSES (continued)

***Group** (continued)*

| | Note | Year ended 31 December 2008<br>As at 1 January | Charge for the year/ (Write-back) | Transfer (out) | Write-offs | As at 31 December |
|---|---|---|---|---|---|---|
| Deposits with banks and non-bank financial institutions | 14 | 33 | (6) | — | (6) | 21 |
| Placements with banks and non-bank financial institutions | 15 | 495 | (98) | — | (145) | 252 |
| Financial assets held under resale agreements | 18 | 11 | — | — | — | 11 |
| Interest receivable | 19 | 19 | (18) | — | — | 1 |
| Loans and advances to customers | 20(3) | 88,928 | 36,246 | (8,227) | (6,579) | 110,368 |
| Held-to-maturity investments | 22 | 5,042 | 3,126 | (343) | (273) | 7,552 |
| Debt securities classified as receivables | 23 | 709 | (645) | — | — | 64 |
| Fixed assets | 26 | 514 | 28 | — | (19) | 523 |
| Long-term lease prepayment | 27 | 159 | 4 | — | (2) | 161 |
| Intangible assets | 28 | 9 | — | — | (1) | 8 |
| Other assets | 31 | 3,595 | 1,436 | — | (1,345) | 3,686 |
| Total | | 99,514 | 40,073 | (8,570) | (8,370) | 122,647 |

Transfer in/out includes the effect of exchange differences.

(Expressed in millions of Renminbi unless otherwise stated)

## 32 MOVEMENTS OF ALLOWANCES FOR IMPAIRMENT LOSSES (continued)

### *Bank*

| | | Six months ended 30 June 2009 | | | | |
|---|---|---|---|---|---|---|
| | Note | As at 1 January | Charge for the period/ (Write-back) | Transfer in/(out) | Write-offs | As at 30 June |
| Deposits with banks and non-bank financial institutions | 14 | 21 | (2) | — | — | 19 |
| Placements with banks and non-bank financial institutions | 15 | 252 | (78) | — | — | 174 |
| Financial assets held under resale agreements | 18 | 11 | (11) | — | — | — |
| Interest receivable | 19 | 1 | — | — | — | 1 |
| Loans and advances to customers | 20(3) | 110,202 | 10,245 | (757) | (3,704) | 115,986 |
| Held-to-maturity investments | 22 | 7,552 | 397 | 9 | (748) | 7,210 |
| Debt securities classified as receivables | 23 | 64 | (8) | — | — | 56 |
| Fixed assets | 26 | 523 | — | — | (7) | 516 |
| Long-term lease prepayment | 27 | 161 | — | — | (3) | 158 |
| Intangible assets | 28 | 8 | — | — | — | 8 |
| Other assets | 31 | 3,686 | 422 | — | (255) | 3,853 |
| Total | | 122,481 | 10,965 | (748) | (4,717) | 127,981 |

(Expressed in millions of Renminbi unless otherwise stated)

## 32 MOVEMENTS OF ALLOWANCES FOR IMPAIRMENT LOSSES (continued)

***Bank** (continued)*

| | | Year ended 31 December 2008 | | | | |
|---|---|---|---|---|---|---|
| | Note | As at 1 January | Charge for the year/ (Write-back) | Transfer out | Write-offs | As at 31 December |
| Deposits with banks and non-bank financial institutions | 14 | 33 | (6) | — | (6) | 21 |
| Placements with banks and non-bank financial institutions | 15 | 495 | (98) | — | (145) | 252 |
| Financial assets held under resale agreements | 18 | 11 | — | — | — | 11 |
| Interest receivable | 19 | 19 | (18) | — | — | 1 |
| Loans and advances to customers | 20(3) | 88,844 | 36,157 | (8,228) | (6,571) | 110,202 |
| Held-to-maturity investments | 22 | 5,042 | 3,126 | (343) | (273) | 7,552 |
| Debt securities classified as receivables | 23 | 709 | (645) | — | — | 64 |
| Fixed assets | 26 | 514 | 28 | — | (19) | 523 |
| Long-term lease prepayment | 27 | 159 | 4 | — | (2) | 161 |
| Intangible assets | 28 | 9 | — | — | (1) | 8 |
| Other assets | 31 | 3,595 | 1,435 | — | (1,344) | 3,686 |
| Total | | 99,430 | 39,983 | (8,571) | (8,361) | 122,481 |

(Expressed in millions of Renminbi unless otherwise stated)

## 33 AMOUNTS DUE FROM/TO SUBSIDIARIES

Amounts due from subsidiaries of the Bank are analysed by assets category as follows:

| | 30 June 2009 | 31 December 2008 |
|---|---|---|
| Deposits with banks and non-bank financial institutions | **59** | – |
| Placements with banks and non-bank financial institutions | **1,146** | 14,441 |
| Interest receivable | **3** | 98 |
| Loans and advances to customers | **–** | 797 |
| Available-for-sale financial assets | **1,763** | 942 |
| Other assets | **18,423** | 14,280 |
| Total | **21,394** | 30,558 |

Amounts due to subsidiaries of the Bank are analysed by liabilities category as follows:

| | 30 June 2009 | 31 December 2008 |
|---|---|---|
| Deposits from banks and non-bank financial institutions | **2,337** | 1,011 |
| Placements from banks and non-bank financial institutions | **2,652** | 12,038 |
| Deposits from customers | **2,491** | 3,261 |
| Interest payable | **17** | 49 |
| Debt securities issued | **1,452** | 130 |
| Other liabilities | **2** | 2 |
| Total | **8,951** | 16,491 |

The amounts due from/to subsidiaries mentioned above have been eliminated in the consolidated financial statements.

(Expressed in millions of Renminbi unless otherwise stated)

## 34 DEPOSITS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

### (1) Analysed by type of counterparty

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Deposits in Mainland China | | | | |
| — Banks | **143,890** | 122,325 | **144,555** | 122,980 |
| — Non-bank financial institutions | **554,172** | 324,289 | **555,644** | 324,645 |
| | **698,062** | 446,614 | **700,199** | 447,625 |
| Deposits in overseas | | | | |
| — Banks | **933** | 738 | **933** | 724 |
| — Non-bank financial institutions | **73** | 112 | **73** | 112 |
| | **1,006** | 850 | **1,006** | 836 |
| Total | **699,068** | 447,464 | **701,205** | 448,461 |

### (2) Analysed by legal form of counterparty

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| PRC policy banks | **2,845** | 26 | **2,845** | 26 |
| PRC state-owned banks and non-bank financial institutions | **239,213** | 130,008 | **239,213** | 130,008 |
| PRC joint-stock banks and non-bank financial institutions | **440,221** | 300,150 | **442,055** | 300,934 |
| Foreign-invested banks and non-bank financial institutions | **16,789** | 17,280 | **17,092** | 17,493 |
| Total | **699,068** | 447,464 | **701,205** | 448,461 |

(Expressed in millions of Renminbi unless otherwise stated)

## 35 PLACEMENTS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

### (1) Analysed by type of counterparty

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Placements in Mainland China | | | | |
| — Banks | **9,534** | 28,298 | **9,468** | 28,298 |
| — Non-bank financial institutions | **5** | 5 | **5** | 5 |
| | **9,539** | 28,303 | **9,473** | 28,303 |
| Placements in overseas | | | | |
| — Banks | **14,946** | 14,760 | **13,122** | 24,888 |
| — Non-bank financial institutions | **481** | 45 | **481** | — |
| | **15,427** | 14,805 | **13,603** | 24,888 |
| Total | **24,966** | 43,108 | **23,076** | 53,191 |

### (2) Analysed by legal form of counterparty

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| PRC policy banks | **2,403** | 614 | **2,403** | 614 |
| PRC state-owned banks and non-bank financial institutions | **101** | 3,415 | **101** | 3,415 |
| PRC joint-stock banks and non-bank financial institutions | **7,987** | 25,619 | **7,921** | 25,619 |
| Foreign-invested banks and non-bank financial institutions | **14,475** | 13,460 | **12,651** | 23,543 |
| Total | **24,966** | 43,108 | **23,076** | 53,191 |

(Expressed in millions of Renminbi unless otherwise stated)

## 36 TRADING FINANCIAL LIABILITIES

| | Group and Bank | |
|---|---|---|
| | **30 June 2009** | 31 December 2008 |
| Structured deposits | **100** | 3,975 |

As at 30 June 2009 and 31 December 2008, the trading financial liabilities of the Group and the Bank represented the structured deposits designated as at fair value through profit or loss. As at 30 June 2009, the fair value of structured deposits was more than the contractual payables at maturity by RMB2 million (as at 31 December 2008: more than by RMB27 million). The amounts of changes in the fair value of the financial liabilities that are attributable to changes in credit risk are considered not significant during the period presented and cumulatively as at 30 June 2009 and 31 December 2008.

## 37 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

| | Group and Bank | |
|---|---|---|
| | **30 June 2009** | 31 December 2008 |
| Overseas central banks | **482** | 864 |

Collaterals for all financial assets sold under repurchase agreements are all securities.

(Expressed in millions of Renminbi unless otherwise stated)

## 38 DEPOSITS FROM CUSTOMERS

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Demand deposits | | | | |
| — Corporate customers | **2,626,831** | 2,233,187 | **2,625,483** | 2,233,497 |
| — Personal customers | **1,304,692** | 1,137,114 | **1,296,035** | 1,132,210 |
| | **3,931,523** | 3,370,301 | **3,921,518** | 3,365,707 |
| Time deposits (including call deposits) | | | | |
| — Corporate customers | **1,495,243** | 1,152,126 | **1,486,166** | 1,142,678 |
| — Personal customers | **2,183,256** | 1,853,488 | **2,167,864** | 1,834,600 |
| | **3,678,499** | 3,005,614 | **3,654,030** | 2,977,278 |
| Total | **7,610,022** | 6,375,915 | **7,575,548** | 6,342,985 |

Deposits from customers include:

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| (1) Pledged deposits | | | | |
| — Deposits for acceptance | **237,063** | 88,833 | **237,063** | 88,833 |
| — Deposits for guarantee | **24,521** | 24,141 | **24,521** | 24,141 |
| — Deposits for letter of credit | **14,730** | 11,657 | **14,730** | 11,657 |
| — Others | **53,143** | 35,322 | **53,328** | 35,535 |
| | **329,457** | 159,953 | **329,642** | 160,166 |
| (2) Outward remittance and remittance payables | **11,847** | 21,287 | **11,992** | 21,233 |

(Expressed in millions of Renminbi unless otherwise stated)

## 39 ACCRUED STAFF COSTS

***Group***

| | | Six months ended 30 June 2009 | | | |
|---|---|---|---|---|---|
| | Note | As at 1 January | Accrued during the period | Payments made | As at 30 June |
| Salaries, bonuses, allowances and subsidies | | **8,012** | **14,747** | **(14,769)** | **7,990** |
| Defined contribution retirement schemes | | **444** | **2,340** | **(2,479)** | **305** |
| Other social insurance and welfare | | **1,399** | **2,673** | **(2,418)** | **1,654** |
| Housing fund | | **72** | **1,353** | **(1,322)** | **103** |
| Labor union expenses and employee education expenses | | **735** | **512** | **(343)** | **904** |
| Supplementary retirement benefits | (1) | **6,556** | **99** | **(256)** | **6,399** |
| Early retirement benefits | (2) | **7,926** | **69** | **(664)** | **7,331** |
| Staff termination costs | | **9** | **8** | **(8)** | **9** |
| Total | | **25,153** | **21,801** | **(22,259)** | **24,695** |

| | | Year ended 31 December 2008 | | | |
|---|---|---|---|---|---|
| | Note | As at 1 January | Accrued during the year | Payments made | As at 31 December |
| Salaries, bonuses, allowances and subsidies | | 4,088 | 32,252 | (28,328) | 8,012 |
| Defined contribution retirement schemes | | 1,115 | 4,294 | (4,965) | 444 |
| Other social insurance and welfare | | 1,619 | 5,813 | (6,033) | 1,399 |
| Housing fund | | 104 | 2,612 | (2,644) | 72 |
| Labor union expenses and employee education expenses | | 646 | 1,073 | (984) | 735 |
| Supplementary retirement benefits | (1) | 6,159 | 852 | (455) | 6,556 |
| Early retirement benefits | (2) | 8,998 | 360 | (1,432) | 7,926 |
| Staff termination costs | | 18 | 45 | (54) | 9 |
| Total | | 22,747 | 47,301 | (44,895) | 25,153 |

(Expressed in millions of Renminbi unless otherwise stated)

## 39 ACCRUED STAFF COSTS (continued)

### *Bank*

| | Note | Six months ended 30 June 2009 | | | |
|---|---|---|---|---|---|
| | | As at 1 January | Accrued during the period | Payments made | As at 30 June |
| Salaries, bonuses, allowances and subsidies | | **7,711** | **14,230** | **(14,352)** | **7,589** |
| Defined contribution retirement schemes | | **444** | **2,321** | **(2,461)** | **304** |
| Other social insurance and welfare | | **1,358** | **2,646** | **(2,393)** | **1,611** |
| Housing fund | | **71** | **1,348** | **(1,316)** | **103** |
| Labor union expenses and employee education expenses | | **732** | **509** | **(342)** | **899** |
| Supplementary retirement benefits | (1) | **6,556** | **99** | **(256)** | **6,399** |
| Early retirement benefits | (2) | **7,926** | **69** | **(664)** | **7,331** |
| Staff termination costs | | **9** | **8** | **(8)** | **9** |
| Total | | **24,807** | **21,230** | **(21,792)** | **24,245** |

| | Note | Year ended 31 December 2008 | | | |
|---|---|---|---|---|---|
| | | As at 1 January | Accrued during the year | Payments made | As at 31 December |
| Salaries, bonuses, allowances and subsidies | | 3,859 | 31,528 | (27,676) | 7,711 |
| Defined contribution retirement schemes | | 1,106 | 4,264 | (4,926) | 444 |
| Other social insurance and welfare | | 1,619 | 5,772 | (6,033) | 1,358 |
| Housing fund | | 103 | 2,605 | (2,637) | 71 |
| Labor union expenses and employee education expenses | | 645 | 1,069 | (982) | 732 |
| Supplementary retirement benefits | (1) | 6,159 | 852 | (455) | 6,556 |
| Early retirement benefits | (2) | 8,998 | 360 | (1,432) | 7,926 |
| Staff termination costs | | 18 | 45 | (54) | 9 |
| Total | | 22,507 | 46,495 | (44,195) | 24,807 |

(Expressed in millions of Renminbi unless otherwise stated)

## 39 ACCRUED STAFF COSTS (continued)

### (1) Supplementary retirement benefits

The Group's obligations in respect of the supplementary retirement benefits as at the balance sheet date were calculated using the projected unit credit actuarial cost method and reviewed by qualified staff (a member of Society of Actuaries of the United States of America) of an external independent actuary: Towers, Perrin, Forster & Crosby, Inc., Hong Kong.

(a) Breakdowns of supplementary retirement benefits of the Group and the Bank are as follows:

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| Present value of supplementary retirement benefit obligations | **6,381** | 6,842 |
| Unrecognised actuarial gains/(losses) | **18** | (286) |
| As at 30 June/31 December | **6,399** | 6,556 |

(b) Movements of supplementary retirement benefits of the Group and the Bank are as follows:

| | **Six months ended 30 June 2009** | Year ended 31 December 2008 |
|---|---|---|
| As at 1 January | **6,556** | 6,159 |
| Payments made | **(256)** | (455) |
| Expenses recognised in profit or loss | | |
| — Interest cost | **99** | 284 |
| — Past service costs | **—** | 568 |
| As at 30 June/31 December | **6,399** | 6,556 |

Interest cost was recognised in other general and administrative expenses. Past service costs were recognised in staff costs.

(c) Principal actuarial assumptions of the Group and the Bank as at the balance sheet date:

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| Discount rate | **3.5%** | 3% |
| Health care cost increases | **7%** | 7% |
| Average expected future lifetime of eligible employees | **14.9 years** | 15.2 years |

(Expressed in millions of Renminbi unless otherwise stated)

## 39 ACCRUED STAFF COSTS (continued)

### (2) Early retirement expenses

(a) Movements of early retirement expenses of the Group and the Bank are as follows:

| | Six months ended 30 June 2009 | Year ended 31 December 2008 |
|---|---|---|
| As at 1 January | **7,926** | 8,998 |
| Payments made | **(664)** | (1,432) |
| Expenses recognised in profit or loss — Interest cost | **69** | 360 |
| As at 30 June/31 December | **7,331** | 7,926 |

Interest cost was recognised in other general and administrative expenses.

(b) Principal actuarial assumptions of the Group and the Bank as at the balance sheet date:

| | 30 June 2009 | 31 December 2008 |
|---|---|---|
| Discount rate | **2.32%** | 1.75% |
| Early retirement expenses increases | **8%** | 8% |
| Average expected early retirement period | **4.4 years** | 4.8 years |

(3) The Group and the Bank had no overdue balance of accrued staff costs as at the balance sheet date.

## 40 TAXES PAYABLE

| | Group | | Bank | |
|---|---|---|---|---|
| | 30 June 2009 | 31 December 2008 | 30 June 2009 | 31 December 2008 |
| Income tax | **15,455** | 29,777 | **15,139** | 29,558 |
| Business tax and surcharges | **4,477** | 4,706 | **4,470** | 4,698 |
| Others | **458** | 1,055 | **456** | 1,054 |
| Total | **20,390** | 35,538 | **20,065** | 35,310 |

(Expressed in millions of Renminbi unless otherwise stated)

## 41 INTEREST PAYABLE

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Deposits from banks and non-bank financial institutions | **2,111** | 1,059 | **2,110** | 1,057 |
| Placements from banks and non-bank financial institutions | **24** | 180 | **33** | 224 |
| Financial assets sold under repurchase agreements | **—** | 3 | **—** | 3 |
| Deposits from customers | **61,881** | 57,743 | **61,846** | 57,665 |
| Debt securities issued | **1,914** | 553 | **1,914** | 553 |
| Others | **132** | 157 | **121** | 150 |
| Total | **66,062** | 59,695 | **66,024** | 59,652 |

## 42 PROVISIONS

| | Group and Bank | |
|---|---|---|
| | **30 June 2009** | 31 December 2008 |
| Litigation provisions | **1,032** | 1,117 |
| Others | **548** | 689 |
| Total | **1,580** | 1,806 |

(Expressed in millions of Renminbi unless otherwise stated)

# 43 DEBT SECURITIES ISSUED

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Certificates of deposit issued | (1) | **13,898** | 11,017 | **15,131** | 9,608 |
| Bonds issued | (2) | **2,859** | 2,854 | **2,989** | 2,984 |
| Subordinated bonds issued | (3) | **79,878** | 39,939 | **79,878** | 39,939 |
| Total | | **96,635** | 53,810 | **97,998** | 52,531 |

Notes:

(1) Certificates of deposit were mainly issued by the Hong Kong branch of the Bank and CCB Asia in Hong Kong and recognised at amortised cost.

(2) Bonds issued represent the fixed rate RMB bonds issued on 11 September 2008 and will mature on 11 September 2010.

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| 3.24% fixed rate RMB bonds | **2,870** | 2,870 | **3,000** | 3,000 |
| Less: Unamortised issuance cost | **(11)** | (16) | **(11)** | (16) |
| Carrying value as at 30 June/31 December | **2,859** | 2,854 | **2,989** | 2,984 |

(3) The carrying value of the Group and the Bank's subordinated bonds issued upon the approval of the PBC and the CBRC is as follows:

| | | Group and Bank | |
|---|---|---|---|
| | Note | **30 June 2009** | 31 December 2008 |
| 4.87% subordinated fixed rate bonds maturing in August 2014 | (a) | **11,140** | 11,140 |
| Subordinated floating rate bonds maturing in August 2014 | (b) | **3,860** | 3,860 |
| 4.95% subordinated fixed rate bonds maturing in September 2014 | (c) | **8,300** | 8,300 |
| Subordinated floating rate bonds maturing in December 2014 | (d) | **6,078** | 6,078 |
| 4.95% subordinated fixed rate bonds maturing in December 2014 | (e) | **10,622** | 10,622 |
| 3.2% subordinated fixed rate bonds maturing in February 2019 | (f) | **12,000** | — |
| 4% subordinated fixed rate bonds maturing in February 2024 | (g) | **28,000** | — |
| Total nominal value | | **80,000** | 40,000 |
| Less: Unamortised issuance cost | | **(122)** | (61) |
| Carrying value as at 30 June/31 December | | **79,878** | 39,939 |

(Expressed in millions of Renminbi unless otherwise stated)

## 43 DEBT SECURITIES ISSUED (continued)

Notes: (continued)

(a) The interest rate per annum on the subordinated fixed rate bonds issued in August 2004 is 4.87%. The Group has an option to redeem the bonds on 1 August 2009. If they are not redeemed by the Group, the interest rate of the bonds will increase to 7.67% per annum from 1 August 2009 for the next five years.

(b) The interest rate per annum on the subordinated floating rate bonds issued in August 2004 is reset annually based on the PBC one-year fixed deposit rate, plus an interest margin of 2%. The Group has an option to redeem the bonds on 1 August 2009. If they are not redeemed by the Group, the interest margin of the bonds will increase to 2.75% per annum from 1 August 2009 for the next five years.

(c) The interest rate per annum on the subordinated fixed rate bonds issued in September 2004 is 4.95%. The Group has an option to redeem the bonds on 22 September 2009. If they are not redeemed by the Group, the interest rate will increase to 7.95% per annum from 22 September 2009 for the next five years.

(d) The interest rate per annum on the subordinated floating rate bonds issued in December 2004, which is reset every six months, is determined as the weighted seven-day repo rate quoted in the PRC inter-bank money market plus an interest margin of 2%. The Group has an option to redeem the bonds on 27 December 2009. If they are not redeemed by the Group, the interest margin will increase to 3% per annum from 27 December 2009 for the next five years.

(e) The interest rate per annum on the subordinated fixed rate bonds issued in December 2004 is 4.95%. The Group has an option to redeem the bonds on 27 December 2009. If they are not redeemed by the Group, the interest rate will increase to 7.95% per annum from 27 December 2009 for the next five years.

(f) The interest rate per annum on the subordinated fixed rate bonds issued in February 2009 is 3.2%. The Group has an option to redeem the bonds on 26 February 2014. If they are not redeemed by the Group, the interest rate will increase to 6.2% per annum from 26 February 2014 for the next five years.

(g) The interest rate per annum on the subordinated fixed rate bonds issued in February 2009 is 4%. The Group has an option to redeem the bonds on 26 February 2019. If they are not redeemed by the Group, the interest rate will increase to 7% per annum from 26 February 2019 for the next five years.

## 44 OTHER LIABILITIES

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Payables to China Jianyin Investment Limited ("Jianyin") | **167** | 57 | **167** | 57 |
| Dormant accounts | **4,324** | 4,379 | **4,324** | 4,379 |
| Dividend payable | **18,934** | — | **18,921** | — |
| Securities underwriting and redemption payable | **8,244** | 3,616 | **8,244** | 3,616 |
| Payment and collection clearance account | **550** | 592 | **550** | 592 |
| Settlement accounts | **694** | 498 | **694** | 437 |
| Others | **16,288** | 12,844 | **14,751** | 12,240 |
| Total | **49,201** | 21,986 | **47,651** | 21,321 |

(Expressed in millions of Renminbi unless otherwise stated)

## 45 SHARE CAPITAL

| | Group and Bank | |
|---|---|---|
| | **30 June 2009** | 31 December 2008 |
| Listed in Hong Kong (H Share) | **224,689** | 224,689 |
| Listed in Mainland China (A Share) | **9,000** | 9,000 |
| Total | **233,689** | 233,689 |

All H and A shares are ordinary shares and rank pari passu with the same rights and benefits.

## 46 CAPITAL RESERVE

| | Group and Bank | |
|---|---|---|
| | **30 June 2009** | 31 December 2008 |
| Share premium | **90,210** | 90,210 |
| Others | **31** | 31 |
| Total | **90,241** | 90,241 |

Share premium was the amount arising from the issue of shares at prices in excess of their par value.

(Expressed in millions of Renminbi unless otherwise stated)

## 47 INVESTMENT REVALUATION RESERVE

The Group recognises other comprehensive income arising from available-for-sale financial assets in "investment revaluation reserve" of shareholders' equity. Movements of investment revaluation reserve are as follows:

***Group***

| | Six months ended 30 June 2009 | | |
|---|---|---|---|
| | **Gross amount** | **Tax effect** | **Net effect** |
| As at 1 January | **14,890** | **(3,734)** | **11,156** |
| Amounts directly recognised in equity | | | |
| — Changes in fair value of available-for-sale equity instruments | **5,869** | **(1,467)** | **4,402** |
| — Changes in fair value of available-for-sale debt securities | **(3,835)** | **959** | **(2,876)** |
| | **2,034** | **(508)** | **1,526** |
| Amounts transferred to profit or loss | | | |
| — Impairment loss of available-for-sale debt securities | **1,825** | **(456)** | **1,369** |
| — Changes in fair value of available-for-sale financial assets sold | **(966)** | **241** | **(725)** |
| — Amortisation of changes in fair value of investments reclassified from available-for-sale to held-to-maturity | **366** | **(92)** | **274** |
| | **1,225** | **(307)** | **918** |
| As at 30 June | **18,149** | **(4,549)** | **13,600** |

(Expressed in millions of Renminbi unless otherwise stated)

## 47 INVESTMENT REVALUATION RESERVE (continued)

***Group*** *(continued)*

| | Year ended 31 December 2008 | | |
|---|---|---|---|
| | Gross amount | Tax effect | Net effect |
| As at 1 January | 21,886 | (5,478) | 16,408 |
| Amounts directly recognised in equity | | | |
| — Changes in fair value of available-for-sale equity instruments | (18,234) | 4,558 | (13,676) |
| — Changes in fair value of available-for-sale debt securities | (762) | 186 | (576) |
| | (18,996) | 4,744 | (14,252) |
| Amounts transferred to profit or loss | | | |
| — Impairment loss of available-for-sale debt securities | 10,622 | (2,655) | 7,967 |
| — Changes in fair value of available-for-sale financial assets sold | 247 | (62) | 185 |
| — Amortisation of changes in fair value of investments reclassified from available-for-sale to held-to-maturity | 1,131 | (283) | 848 |
| | 12,000 | (3,000) | 9,000 |
| As at 31 December | 14,890 | (3,734) | 11,156 |

(Expressed in millions of Renminbi unless otherwise stated)

## 47 INVESTMENT REVALUATION RESERVE (continued)

### *Bank*

| | Six months ended 30 June 2009 | | |
|---|---|---|---|
| | **Gross amount** | **Tax effect** | **Net effect** |
| As at 1 January | **14,862** | **(3,724)** | **11,138** |
| Amounts directly recognised in equity | | | |
| — Changes in fair value of available-for-sale equity instruments | **5,862** | **(1,465)** | **4,397** |
| — Changes in fair value of available-for-sale debt securities | **(3,815)** | **954** | **(2,861)** |
| | **2,047** | **(511)** | **1,536** |
| Amounts transferred to profit or loss | | | |
| — Impairment loss of available-for-sale debt securities | **1,825** | **(456)** | **1,369** |
| — Changes in fair value of available-for-sale financial assets sold | **(966)** | **241** | **(725)** |
| — Amortisation of changes in fair value of investments reclassified from available-for-sale to held-to-maturity | **366** | **(92)** | **274** |
| | **1,225** | **(307)** | **918** |
| As at 30 June | **18,134** | **(4,542)** | **13,592** |

| | Year ended 31 December 2008 | | |
|---|---|---|---|
| | Gross amount | Tax effect | Net effect |
| As at 1 January | 21,855 | (5,467) | 16,388 |
| Amounts directly recognised in equity | | | |
| — Changes in fair value of available-for-sale equity instruments | (18,231) | 4,557 | (13,674) |
| — Changes in fair value of available-for-sale debt securities | (762) | 186 | (576) |
| | (18,993) | 4,743 | (14,250) |
| Amounts transferred to profit or loss | | | |
| — Impairment loss of available-for-sale debt securities | 10,622 | (2,655) | 7,967 |
| — Changes in fair value of available-for-sale financial assets sold | 247 | (62) | 185 |
| — Amortisation of changes in fair value of investments reclassified from available-for-sale to held-to-maturity | 1,131 | (283) | 848 |
| | 12,000 | (3,000) | 9,000 |
| As at 31 December | 14,862 | (3,724) | 11,138 |

(Expressed in millions of Renminbi unless otherwise stated)

## 48 SURPLUS RESERVE

Surplus reserves consist of statutory surplus reserve fund and discretionary surplus reserve fund.

The Bank is required to allocate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the MOF, to the statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital. After making appropriations to the statutory surplus reserve fund, the Bank may also allocate its net profit to the discretionary surplus reserve fund upon approval by shareholders in general meeting.

## 49 GENERAL RESERVE

The general reserve of the Group and the Bank is set up based upon the requirements of:

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| MOF | (1) | **46,093** | 46,093 | **46,093** | 46,093 |
| Hong Kong Banking Ordinance | (2) | **485** | 476 | **105** | 105 |
| Other regulatory bodies in Mainland China | (3) | **69** | 56 | **—** | — |
| Other overseas regulatory bodies | | **11** | 3 | **11** | 2 |
| As at 30 June/31 December | | **46,658** | 46,628 | **46,209** | 46,200 |

Notes:

(1) Pursuant to relevant regulations issued by MOF, the Bank is required to set aside a general reserve through appropriations of profit after tax according to a certain provision ratio of the ending balance of gross risk-bearing assets to cover potential losses against their assets. In principle, the general reserve balance should not be lower than 1% of the ending balance of gross risk-bearing assets. The Bank is requested to set aside the required general reserve within a transitional period of approximately three years, but no more than five years, from 1 July 2005.

(2) Pursuant to requirements of the Hong Kong Banking Ordinance, the Group's banking operations in Hong Kong are required to set aside amounts in a regulatory reserve in respect of losses which it will, or may, incur on loans and advances to customers, in addition to impairment losses recognised in accordance with the accounting policies of the Group. Transfers to and from the regulatory reserve are made through retained earnings.

(3) Pursuant to the relevant regulatory requirements in Mainland China, the Bank's subsidiary is required to appropriate a certain amount of its net profit as general reserve.

## 50 PROFIT DISTRIBUTION

In the Annual General Meeting held on 11 June 2009, the shareholders approved the profit distribution for the six months from 1 July 2008 to 31 December 2008. The Bank appropriated final dividend in an aggregate amount of RMB19,560 million for the six months from 1 July 2008 to 31 December 2008.

(Expressed in millions of Renminbi unless otherwise stated)

## 51 EXCHANGE RESERVE

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

## 52 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

### (1) Cash and cash equivalents

| | **30 June 2009** | 31 December 2008 | 30 June 2008 |
|---|---|---|---|
| Cash | **34,243** | 34,313 | 29,014 |
| Surplus deposit reserves with central banks | **113,670** | 277,981 | 84,811 |
| Demand deposits with banks and non-bank financial institutions | **31,447** | 24,560 | 17,572 |
| Deposits with banks and non-bank financial institutions with original maturity with or within three months | **25,319** | 5,201 | 6,915 |
| Placements with banks and non-bank financial institutions with original maturity with or within three months | **16,873** | 13,756 | 4,962 |
| Total | **221,552** | 355,811 | 143,274 |

### (2) Acquisition of subsidiaries, associates and jointly controlled entities

In the first half year of 2009, the Bank invested with an amount equivalent of RMB684 million (US$100 million) to establish CCB London.

In the first half year of 2009, the Bank and other investors made cash contributions of RMB53 million and RMB97 million to establish Cangnan Rural respectively; CCBI and other investors contributed an amount equivalent of RMB258 million and RMB23 million to establish two subsidiaries respectively.

In the first half year of 2009, CCBI paid an amount equivalent of RMB12 million to acquire one associate and two jointly controlled entities.

In the first half year of 2008, the Bank and Bausparkasse Schwaebisch Hall of Germany paid cash of RMB188 million and an amount equivalent of RMB62 million respectively as the additional capital contribution to Sino-German respectively.

In the first half year of 2008, the Group paid an amount equivalent of RMB415 million to acquire the issued share capital of DSL.

### (3) Disposal of subsidiary

In the first half year of 2009, the Group's subsidiary CCBI disposed of a portion of its subsidiary's share capital for RMB23 million.

### (4) Dividend paid

Among the cash used to distribute dividends by the Group, the subsidiaries paid RMB5 million to minority shareholders for the six months ended 30 June 2009 (for the six months ended 30 June 2008: RMB23 million).

## 53 OPERATING SEGMENTS

As mentioned in Note 2(4), the Group has presented the operating segments in a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment.

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 expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense". Interest income and expense earned from third parties are referred to as "external net interest income/expense".

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) 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, Seoul and New York, and certain subsidiaries operating in Hong Kong and London.

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 of the Group, as defined for management reporting purposes, are defined as follows:

— "Yangtze River Delta" refers to the following areas serviced by the subsidiary and 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.

(Expressed in millions of Renminbi unless otherwise stated)

## 53 OPERATING SEGMENTS (continued)

### (1) Geographical segments (continued)

| | Six months ended 30 June 2009 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Yangtze River Delta | Pearl River Delta | Bohai Rim | Central | Western | Northeastern | Head Office | Overseas | Total |
| External net interest income | 15,569 | 7,476 | 8,493 | 9,788 | 12,286 | 2,598 | 44,992 | 1,266 | 102,468 |
| Internal net interest income/(expense) | 5,588 | 6,273 | 8,513 | 6,748 | 5,026 | 3,693 | (35,775) | (66) | – |
| **Net interest income** | 21,157 | 13,749 | 17,006 | 16,536 | 17,312 | 6,291 | 9,217 | 1,200 | 102,468 |
| Net fee and commission income | 5,966 | 4,285 | 3,709 | 3,829 | 3,242 | 1,219 | 981 | 191 | 23,422 |
| Net trading gain/(loss) | 34 | 84 | 32 | 18 | 50 | 23 | (33) | 1,085 | 1,293 |
| Dividend income | – | – | 5 | 25 | 4 | – | 4 | 16 | 54 |
| Net gain/(loss) arising from investment securities | – | – | 1 | 313 | 348 | 114 | 2,696 | (14) | 3,458 |
| Other operating income/(loss), net | 195 | 50 | 137 | 99 | 257 | 51 | (139) | 120 | 770 |
| **Operating income** | 27,352 | 18,168 | 20,890 | 20,820 | 21,213 | 7,698 | 12,726 | 2,598 | 131,465 |
| Operating expenses | (8,959) | (6,472) | (7,429) | (8,234) | (8,092) | (3,443) | (2,606) | (950) | (46,185) |
| Impairment losses | (3,784) | (1,860) | (1,091) | (2,034) | (1,330) | (394) | (1,818) | (508) | (12,819) |
| Share of profits less losses of associates and jointly controlled entities | – | – | – | – | – | – | – | 8 | 8 |
| **Profit before tax** | 14,609 | 9,836 | 12,370 | 10,552 | 11,791 | 3,861 | 8,302 | 1,148 | 72,469 |
| Capital expenditure | 725 | 449 | 946 | 795 | 778 | 468 | 393 | 53 | 4,607 |
| Depreciation and amortisation | 909 | 660 | 782 | 924 | 815 | 389 | 807 | 41 | 5,327 |
| | 30 June 2009 | | | | | | | | |
| Segment assets | 1,793,466 | 1,448,273 | 1,653,496 | 1,419,904 | 1,391,998 | 602,605 | 4,298,343 | 118,528 | 12,726,613 |
| Interests in associates and jointly controlled entities | – | – | – | – | – | – | – | 1,751 | 1,751 |
| | 1,793,466 | 1,448,273 | 1,653,496 | 1,419,904 | 1,391,998 | 602,605 | 4,298,343 | 120,279 | 12,728,364 |
| Deferred tax assets | | | | | | | | | 10,784 |
| Elimination | | | | | | | | | (3,628,977) |
| Total assets | | | | | | | | | 9,110,171 |
| Segment liabilities | 1,784,525 | 1,442,125 | 1,646,947 | 1,413,685 | 1,385,334 | 600,427 | 3,844,287 | 115,284 | 12,232,614 |
| Deferred tax liabilities | | | | | | | | | – |
| Elimination | | | | | | | | | (3,628,977) |
| Total liabilities | | | | | | | | | 8,603,637 |
| Off-balance sheet credit commitments | 478,867 | 257,285 | 382,127 | 236,764 | 202,769 | 107,780 | 13,037 | 17,416 | 1,696,045 |

(Expressed in millions of Renminbi unless otherwise stated)

# 53 OPERATING SEGMENTS (continued)

## (1) Geographical segments (continued)

| | Six months ended 30 June 2008 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Yangtze River Delta | Pearl River Delta | Bohai Rim | Central | Western | Northeastern | Head Office | Overseas | Total |
| External net interest income | 18,535 | 8,320 | 10,233 | 10,842 | 11,812 | 2,943 | 47,106 | 1,289 | 111,080 |
| Internal net interest income/(expense) | 2,453 | 5,198 | 5,750 | 4,408 | 3,161 | 2,804 | (23,627) | (147) | – |
| **Net interest income** | 20,988 | 13,518 | 15,983 | 15,250 | 14,973 | 5,747 | 23,479 | 1,142 | 111,080 |
| Net fee and commission income | 4,952 | 3,334 | 3,424 | 3,122 | 2,818 | 1,189 | 1,186 | 143 | 20,168 |
| Net trading gain | 218 | 210 | 138 | 26 | 31 | 45 | 185 | 439 | 1,292 |
| Dividend income | – | – | 1 | 21 | 2 | – | 38 | 13 | 75 |
| Net gain arising from investment securities | – | 22 | 409 | 308 | 19 | – | 755 | 133 | 1,646 |
| Other operating income, net | 69 | 55 | 61 | 157 | 161 | 48 | 425 | 499 | 1,475 |
| **Operating income** | 26,227 | 17,139 | 20,016 | 18,884 | 18,004 | 7,029 | 26,068 | 2,369 | 135,736 |
| Operating expenses | (8,858) | (6,285) | (7,437) | (7,998) | (7,646) | (3,352) | (4,015) | (602) | (46,193) |
| Impairment losses | (1,529) | (696) | (1,687) | (2,517) | (4,180) | (658) | (2,563) | (76) | (13,906) |
| Share of profits less losses of associates and jointly controlled entities | – | – | – | – | – | – | – | 18 | 18 |
| **Profit before tax** | 15,840 | 10,158 | 10,892 | 8,369 | 6,178 | 3,019 | 19,490 | 1,709 | 75,655 |
| Capital expenditure | 869 | 313 | 544 | 713 | 762 | 427 | 607 | 238 | 4,473 |
| Depreciation and amortisation | 828 | 572 | 698 | 780 | 679 | 328 | 571 | 31 | 4,487 |

| | 31 December 2008 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Segment assets | 1,468,824 | 1,074,866 | 1,369,934 | 1,157,174 | 1,170,334 | 507,337 | 3,523,723 | 119,865 | 10,392,057 |
| Interests in associates and jointly controlled entities | – | – | – | – | – | – | – | 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 | 10,393,785 |
| Deferred tax assets | | | | | | | | | 7,855 |
| Elimination | | | | | | | | | (2,846,188) |
| 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 | 9,934,073 |
| Deferred tax liabilities | | | | | | | | | 5 |
| Elimination | | | | | | | | | (2,846,188) |
| 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 |

## 53 OPERATING SEGMENTS (continued)

### (2) Business segments

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

*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 Group'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 Group's overall liquidity position, including the issuance of debt securities.

*Others*

These represent equity investments and the revenues, results, assets and liabilities of overseas branches and subsidiaries.

(Expressed in millions of Renminbi unless otherwise stated)

## 53 OPERATING SEGMENTS (continued)

### (2) Business segments (continued)

| | Six months ended 30 June 2009 | | | | |
|---|---|---|---|---|---|
| | Corporate banking | Personal banking | Treasury business | Others | Total |
| External net interest income/(expense) | 74,067 | (15,182) | 42,222 | 1,361 | 102,468 |
| Internal net interest (expense)/income | (12,649) | 45,472 | (32,508) | (315) | – |
| **Net interest income** | 61,418 | 30,290 | 9,714 | 1,046 | 102,468 |
| Net fee and commission income | 9,988 | 7,849 | 5,283 | 302 | 23,422 |
| Net trading (loss)/gain | (152) | 41 | 306 | 1,098 | 1,293 |
| Dividend income | – | – | – | 54 | 54 |
| Net gain arising from investment securities | – | – | 2,680 | 778 | 3,458 |
| Other operating income/(loss), net | 236 | 49 | (134) | 619 | 770 |
| **Operating income** | 71,490 | 38,229 | 17,849 | 3,897 | 131,465 |
| Operating expenses | (19,428) | (23,332) | (1,642) | (1,783) | (46,185) |
| Impairment losses | (8,474) | (1,749) | (2,123) | (473) | (12,819) |
| Share of profits less losses of associates and jointly controlled entities | – | – | – | 8 | 8 |
| **Profit before tax** | 43,588 | 13,148 | 14,084 | 1,649 | 72,469 |
| Capital expenditure | 1,426 | 2,930 | 200 | 51 | 4,607 |
| Depreciation and amortisation | 1,649 | 3,388 | 231 | 59 | 5,327 |
| | 30 June 2009 | | | | |
| Segment assets | 3,855,870 | 965,459 | 4,162,256 | 168,902 | 9,152,487 |
| Interests in associates and jointly controlled entities | – | – | – | 1,751 | 1,751 |
| | 3,855,870 | 965,459 | 4,162,256 | 170,653 | 9,154,238 |
| Deferred tax assets | | | | | 10,784 |
| Elimination | | | | | (54,851) |
| Total assets | | | | | 9,110,171 |
| Segment liabilities | 4,430,827 | 3,928,296 | 100,876 | 198,489 | 8,658,488 |
| Deferred tax liabilities | | | | | – |
| Elimination | | | | | (54,851) |
| Total liabilities | | | | | 8,603,637 |
| Off-balance sheet credit commitments | 1,474,993 | 221,052 | – | – | 1,696,045 |

(Expressed in millions of Renminbi unless otherwise stated)

## 53 OPERATING SEGMENTS (continued)

### (2) Business segments (continued)

| | Six months ended 30 June 2008 | | | | |
|---|---|---|---|---|---|
| | Corporate banking | Personal banking | Treasury business | Others | Total |
| External net interest income/(expense) | 71,185 | (6,352) | 45,012 | 1,235 | 111,080 |
| Internal net interest (expense)/income | (9,801) | 34,739 | (24,151) | (787) | — |
| **Net interest income** | 61,384 | 28,387 | 20,861 | 448 | 111,080 |
| Net fee and commission income | 7,864 | 8,062 | 3,880 | 362 | 20,168 |
| Net trading gain | 9 | 63 | 836 | 384 | 1,292 |
| Dividend income | — | — | — | 75 | 75 |
| Net gain arising from investment securities | — | — | 758 | 888 | 1,646 |
| Other operating income, net | 98 | — | 253 | 1,124 | 1,475 |
| **Operating income** | 69,355 | 36,512 | 26,588 | 3,281 | 135,736 |
| Operating expenses | (19,875) | (22,754) | (1,786) | (1,778) | (46,193) |
| Impairment losses | (9,364) | (2,107) | (2,269) | (166) | (13,906) |
| Share of profits less losses of associates and jointly controlled entities | — | — | — | 18 | 18 |
| **Profit before tax** | 40,116 | 11,651 | 22,533 | 1,355 | 75,655 |
| Capital expenditure | 1,498 | 2,694 | 230 | 51 | 4,473 |
| Depreciation and amortisation | 1,503 | 2,702 | 231 | 51 | 4,487 |
| | 31 December 2008 | | | | |
| Segment assets | 3,214,610 | 863,351 | 3,358,278 | 142,347 | 7,578,586 |
| Interests in associates and jointly controlled entities | — | — | — | 1,728 | 1,728 |
| | 3,214,610 | 863,351 | 3,358,278 | 144,075 | 7,580,314 |
| Deferred tax assets | | | | | 7,855 |
| Elimination | | | | | (32,717) |
| Total assets | | | | | 7,555,452 |
| Segment liabilities | 3,431,049 | 3,426,013 | 70,789 | 192,751 | 7,120,602 |
| Deferred tax liabilities | | | | | 5 |
| Elimination | | | | | (32,717) |
| Total liabilities | | | | | 7,087,890 |
| Off-balance sheet credit commitments | 1,168,055 | 182,425 | — | — | 1,350,480 |

(Expressed in millions of Renminbi unless otherwise stated)

## 54 ENTRUSTED LENDING BUSINESS

At the balance sheet date, the entrusted loans and funds were as follows:

| | Group and Bank | |
|---|---|---|
| | **30 June 2009** | 31 December 2008 |
| Entrusted loans | **527,484** | 469,478 |
| Entrusted funds | **527,484** | 469,478 |

## 55 PLEDGED ASSETS

### (1) Assets pledged as security

*(a) Carrying value of pledged assets analysed by asset type*

| | Group and Bank | |
|---|---|---|
| | **30 June 2009** | 31 December 2008 |
| Pledged deposits | **704** | — |
| Government bonds | **332** | 859 |
| Corporate bonds | **—** | 81 |
| Public sector entity bonds | **683** | 750 |
| Financial institution bonds | **2,255** | 3,180 |
| Total | **3,974** | 4,870 |

*(b) Carrying value of pledged assets analysed by balance sheet classification*

| | Group and Bank | |
|---|---|---|
| | **30 June 2009** | 31 December 2008 |
| Deposits with banks and non-bank financial institutions | 704 | — |
| Available-for-sale financial assets | 1,923 | 2,886 |
| Held-to-maturity investments | 1,347 | 1,984 |
| Total | 3,974 | 4,870 |

### (2) Collateral accepted as securities for assets

The Group conducts resale agreements under usual and customary terms of placements, and holds collateral for these transactions. As at 30 June 2009 and 31 December 2008, the Group did not hold for resale agreements any collateral which it was permitted to sell or repledge in the absence of default for the transactions.

(Expressed in millions of Renminbi unless otherwise stated)

## 56 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 at the balance sheet date 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.

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Loan commitments | | | | |
| — with an original maturity under one year | **74,221** | 47,941 | **71,585** | 44,028 |
| — with an original maturity of one year or over | **346,149** | 259,904 | **345,898** | 259,880 |
| Credit card commitments | **211,722** | 174,714 | **211,690** | 174,714 |
| | **632,092** | 482,559 | **629,173** | 478,622 |
| Bank acceptances | **411,035** | 219,603 | **410,830** | 219,487 |
| Financing guarantees | **143,722** | 182,518 | **143,201** | 181,979 |
| Non-financing guarantees | **390,124** | 362,668 | **390,068** | 362,632 |
| Sight letters of credit | **43,191** | 36,386 | **43,191** | 36,386 |
| Usance letters of credit | **49,882** | 35,110 | **50,254** | 37,499 |
| Others | **25,999** | 31,636 | **26,749** | 31,580 |
| Total | **1,696,045** | 1,350,480 | **1,693,466** | 1,348,185 |

(Expressed in millions of Renminbi unless otherwise stated)

## 56 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

### (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.

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Credit risk-weighted amount of contingent liabilities and commitments | **766,540** | 660,982 | **766,009** | 660,849 |

### (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:

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Within one year | **2,157** | 2,458 | **2,101** | 2,300 |
| After one year but within two years | **1,821** | 2,018 | **1,788** | 1,879 |
| After two years but within three years | **1,514** | 1,571 | **1,474** | 1,501 |
| After three years but within five years | **2,000** | 2,150 | **1,955** | 2,066 |
| After five years | **1,316** | 1,345 | **1,316** | 1,315 |
| Total | **8,808** | 9,542 | **8,634** | 9,061 |

### (4) Capital commitments

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

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Contracted for | **6,593** | 6,333 | **6,510** | 6,298 |
| Authorised but not contracted for | **3,373** | 558 | **2,895** | 556 |
| Total | **9,966** | 6,891 | **9,405** | 6,854 |

(Expressed in millions of Renminbi unless otherwise stated)

## 56 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

### (5) Underwriting obligations

At the balance sheet date, the bank had no unexpired underwriting commitments, the unexpired underwriting commitments of the Group were as follows:

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| Underwriting obligations | **13** | – |

### (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:

| | **Group and Bank** | |
|---|---|---|
| | **30 June 2009** | 31 December 2008 |
| Redemption obligations | **68,067** | 62,677 |

### (7) Outstanding litigation and disputes

As at 30 June 2009, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB2,550 million (as at 31 December 2008: RMB2,781 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 42). 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.

## 57 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

### (1) CIC

Approved by the State Council, CIC was established on 29 September 2007 with a registered capital of US$200 billion. As a wholly owned subsidiary of CIC, Huijin exercises its rights and obligations to the investor on behalf of PRC government.

The Group's main transaction with CIC is deposit taking. The transaction is conducted in the normal and ordinary course of the business and under normal commercial terms.

### (2) Huijin and companies under Huijin

Huijin was incorporated on 16 December 2003 as a wholly state-owned investment company with the approval of the State Council. It was registered in Beijing with a registered capital of RMB552,117 million. Its principal activities are equity investments as authorised by the State Council, without engaging in other commercial operations.

As at 30 June 2009, Huijin directly held 48.23% and indirectly through Jianyin held 8.85% shares of the Bank. According to the share transfer agreement signed between Huijin and Jianyin on 25 May 2009, Jianyin transferred all shares of the Bank, amounting to 20,692,250,000 H shares, to Huijin for nil consideration. The share transfer completed in July 2009. After the completion of the share transfer, Huijin directly held 57.08% shares of the Bank.

Companies under Huijin include Jianyin, which is wholly owned by Huijin, and other subsidiaries and associates and jointly controlled entities of Huijin. Jianyin was a wholly state-owned company with a registered capital of RMB20,692 million. Its principal activities include equity investments, asset management and other business activities as approved by the relevant PRC government authorities.

The Group's transactions with Huijin, Jianyin and companies under Jianyin, and other subsidiaries and associates and jointly controlled entities of Huijin mainly include deposit taking, entrusted asset management, operating leases, lending, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are conducted in the normal and ordinary course of the business and under normal commercial terms.

The Group has issued subordinated debts with a nominal value of RMB80 billion. These are bearer bonds and tradable in secondary market. Accordingly, the Group has no information in respect of the amount of the bonds held by the subsidiaries and other companies under Huijin at the balance sheet date.

(Expressed in millions of Renminbi unless otherwise stated)

## 57 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

### (2) Huijin and companies under Huijin (continued)

*(a) Transactions with Huijin*

In the ordinary course of the business, transactions that the Group and the Bank entered into with Huijin are as follows:

***Amounts***

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2009** | | 2008 | |
| | **Amount** | **Ratio to similar transactions** | Amount | Ratio to similar transactions |
| Interest expense | **87** | **0.13%** | 239 | 0.39% |

***Balances outstanding at balance sheet date***

| | | **30 June 2009** | | 31 December 2008 | |
|---|---|---|---|---|---|
| | Note | **Balance** | **Ratio to similar transactions** | Balance | Ratio to similar transactions |
| Deposits from customers | | **2,849** | **0.04%** | 5,325 | 0.08% |
| Interest payable | | **11** | **0.02%** | 37 | 0.06% |
| Other liabilities | (i) | **10,252** | **20.84%** | — | — |

(i) Other liabilities as at 30 June 2009 represent the dividend payable attributed to second half of 2008 to Huijin.

(Expressed in millions of Renminbi unless otherwise stated)

## 57 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

### (2) Huijin and companies under Huijin (continued)

*(b) Transactions with Jianyin*

In the ordinary course of the business, transactions that the Group and the Bank entered into with Jianyin and companies under Jianyin are as follows:

***Amounts***

| | | Six months ended 30 June | | | |
|---|---|---|---|---|---|
| | | **2009** | | 2008 | |
| | Note | **Amount** | **Ratio to similar transactions** | Amount | Ratio to similar transactions |
| Interest income | | **—** | **—** | 2 | 0.01% |
| Interest expense | | **320** | **0.49%** | 404 | 0.66% |
| Fee and commission income | | **34** | **0.14%** | 56 | 0.27% |
| Fee and commission expense | | **89** | **9.18%** | — | — |
| Other operating income, net | | **1** | **0.13%** | 20 | 1.36% |
| Operating expenses | (i) | **341** | **0.74%** | 385 | 0.83% |

***Balances outstanding at balance sheet date***

| | | **30 June 2009** | | 31 December 2008 | |
|---|---|---|---|---|---|
| | Note | **Balance** | **Ratio to similar transactions** | Balance | Ratio to similar transactions |
| Loans and advances to customers | | **10** | **0.01%** | — | — |
| Placements with banks and non-bank financial institutions | | **—** | **—** | 45 | 0.27% |
| Other assets | (ii) | **1,223** | **7.98%** | 1,384 | 10.81% |
| Deposits from banks and non-bank financial institutions | (iii) | **29,946** | **4.28%** | 28,717 | 6.42% |
| Deposits from customers | | **6,310** | **0.08%** | 1,076 | 0.02% |
| Interest payable | | **48** | **0.07%** | — | — |
| Other liabilities (Note 44) | (iv) | **1,899** | **3.86%** | 57 | 0.26% |

Notes:

(i) Operating expenses mainly represent rental expenses paid by the Group for leased assets, including properties and motor vehicles, owned by Jianyin and its affiliates, and fees for related services provided by Jianyin and its affiliates.

(ii) Other assets mainly represent other receivables from Jianyin and its affiliates.

(iii) Deposits from Jianyin and its affiliates are unsecured and are repayable under normal commercial terms.

(iv) Other liabilities as at 30 June 2009 included a dividend payable attributed to second half of 2008 amounting to RMB1,732 million to Jianyin.

(Expressed in millions of Renminbi unless otherwise stated)

# 57 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

## (2) Huijin and companies under Huijin (continued)

### (c) *Transactions with other subsidiaries of Huijin*

In the ordinary course of the business, transactions that the Group and the Bank entered into with other subsidiaries of Huijin are as follows:

***Amounts***

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2009** | | 2008 | |
| | **Amount** | **Ratio to similar transactions** | Amount | Ratio to similar transactions |
| Interest income | **226** | **0.13%** | 211 | 0.12% |
| Interest expense | **166** | **0.25%** | 232 | 0.38% |
| Fee and commission income | **3** | **0.01%** | 4 | 0.02% |

***Balances outstanding at balance sheet date***

| | **30 June 2009** | | 31 December 2008 | |
|---|---|---|---|---|
| | **Balance** | **Ratio to similar transactions** | Balance | Ratio to similar transactions |
| Deposits with banks and non-bank financial institutions | **30,727** | **44.84%** | 5,928 | 17.91% |
| Placements with banks and non-bank financial institutions | **4,000** | **20.58%** | — | — |
| Trading financial assets | **—** | **—** | 1 | 0.01% |
| Positive fair value of derivatives | **109** | **0.99%** | 462 | 2.17% |
| Financial assets held under resale agreements | **12,480** | **1.44%** | 200 | 0.1% |
| Interest receivable | **217** | **0.55%** | 228 | 0.6% |
| Loans and advances to customers | **1,869** | **0.04%** | 206 | 0.01% |
| Held-to-maturity investments | **7,302** | **0.6%** | 6,807 | 0.65% |
| Debt securities classified as receivables | **649** | **0.13%** | 648 | 0.12% |
| Deposits from banks and non-bank financial institutions | **18,635** | **2.67%** | 9,316 | 2.08% |
| Placements from banks and non-bank financial institutions | **1,414** | **5.66%** | 5,200 | 12.06% |
| Negative fair value of derivatives | **97** | **0.93%** | 212 | 1.14% |
| Deposits from customers | **646** | **0.01%** | 1,699 | 0.03% |
| Interest payable | **13** | **0.02%** | 6 | 0.01% |

(Expressed in millions of Renminbi unless otherwise stated)

## 57 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

### (2) Huijin and companies under Huijin (continued)

*(d) Transactions with the associates and jointly controlled entities of Huijin*

In the ordinary course of the business, transactions that the Group and the Bank entered into with associates and jointly controlled entities of Huijin are as follows:

***Amounts***

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2009** | | 2008 | |
| | **Amount** | **Ratio to similar transactions** | Amount | Ratio to similar transactions |
| Interest income | **5,975** | **3.55%** | 6,479 | 3.76% |
| Interest expense | **203** | **0.31%** | 227 | 0.37% |
| Fee and commission income | **8** | **0.03%** | 82 | 0.39% |
| Fee and commission expense | **—** | **—** | 12 | 1.58% |

***Balances outstanding at balance sheet date***

| | **30 June 2009** | | 31 December 2008 | |
|---|---|---|---|---|
| | **Balance** | **Ratio to similar transactions** | Balance | Ratio to similar transactions |
| Deposits with banks and non-bank financial institutions | **581** | **0.85%** | 439 | 1.33% |
| Placements with banks and non-bank financial institutions | **200** | **1.03%** | 5,004 | 29.72% |
| Trading financial assets | **6,677** | **17.6%** | 2,580 | 5.13% |
| Positive fair value of derivatives | **7** | **0.06%** | 42 | 0.2% |
| Financial assets held under resale agreements | **—** | **—** | 7,744 | 3.71% |
| Interest receivable | **6,238** | **15.68%** | 4,904 | 12.8% |
| Loans and advances to customers | **412** | **0.01%** | 4,623 | 0.13% |
| Available-for-sale financial assets | **53,720** | **9.39%** | 48,271 | 8.76% |
| Held-to-maturity investments | **256,580** | **21.07%** | 239,889 | 23.03% |
| Debt securities classified as receivables | **46,473** | **9.56%** | 47,830 | 8.67% |
| Deposits from banks and non-bank financial institutions | **17,183** | **2.46%** | 10,713 | 2.39% |
| Placements from banks and non-bank financial institutions | **2,808** | **11.25%** | 15,418 | 35.77% |
| Negative fair value of derivatives | **88** | **0.84%** | 158 | 0.85% |
| Deposits from customers | **166** | **0.01%** | 3,125 | 0.05% |
| Interest payable | **14** | **0.02%** | 132 | 0.22% |

(Expressed in millions of Renminbi unless otherwise stated)

## 57 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

### (3) Transactions with associates and jointly controlled entities of the Group

Transactions between the Group and its associates and jointly controlled entities are conducted in the normal and ordinary course of the business and under normal commercial terms. In the ordinary course of the business, transactions that the Group entered into with associates and jointly controlled entities are as follows:

***Amounts***

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| Interest income | **3** | – |

***Balances outstanding at balance sheet date***

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| Loans and advances to customers | **212** | – |
| Deposits from customers | **166** | 247 |
| Interest payable | **–** | 2 |

### (4) Transactions between the Bank and its subsidiaries

Transactions between the Bank and its subsidiaries are conducted in the normal and ordinary course of the business and under normal commercial terms. All the inter-group transactions and inter-group balances are eliminated when preparing the consolidated financial statements as mentioned in Note 2(3).

In the ordinary course of the business, transactions that the Bank entered into with its subsidiaries are as follows:

***Amounts***

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| Interest income | **61** | 65 |
| Interest expense | **81** | 409 |
| Fee and commission income | **24** | 43 |
| Other operating income | **7** | 10 |

Balances outstanding at balance sheet date are presented in Note 33.

As at 30 June 2009, the total maximum guarantee limit of guarantee letters issued by the Bank with its subsidiaries as beneficiary is RMB4,238 million.

## 57 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

### (5) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations ("state-owned entities").

Transactions with other state-owned entities include but are not limited to the following:

— lending and deposit taking;

— taking and placing of inter-bank balances;

— entrusted lending and other custody services;

— insurance and securities agency, and other intermediary services;

— sale, purchase, underwriting and redemption of bonds issued by other state-owned entities;

— purchase, sale and leases of property and other assets; and

— rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits and commission income. Such pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

### (6) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and senior executives.

The emoluments in respect of directors, supervisors and senior executives for the six months ended 30 June 2009 amounted to RMB14.13 million (for the six months ended 30 June 2008: RMB12.44 million).

### (7) Loans and advances to directors, supervisors and senior executives

The Group had no material balance of loans and advances to directors, supervisors and senior executives as at 30 June 2009 and 31 December 2008. Those loans and advances to directors, supervisors and senior executives were conducted in the normal and ordinary course of the business and under normal commercial terms or on the same terms and conditions that are available to other employees, based on terms and conditions granted to third parties adjusted for reduced risk.

## 57 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

### (8) Contributions to defined contribution retirement schemes

The Group participates in various defined contribution retirement schemes organised by municipal and provincial governments for its employees in Mainland China. For its overseas employees, the Group participates in various defined contribution retirement schemes at funding rates determined in accordance with the local practices and regulations. The details of the Group's defined contribution retirement schemes are described in Note 39.

## 58 RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- market risk
- liquidity risk
- operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

### Risk management framework

The board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The board of directors has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk strategy and risk management policies and evaluating the Group's risk exposures regularly.

To identify, evaluate, monitor and manage risk, the Group has designed a comprehensive governance framework, internal control policies and procedures. The Chief Risk Officer, who reports directly to the president, is responsible for the Group's overall risk management. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and standardised and procedural management, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group Audit Committee is responsible for monitoring and evaluating internal controls, and monitoring the compliance of core businesses sectors and their management procedures. The Group Audit Committee is assisted in these functions by Audit Department. Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.

## 58 RISK MANAGEMENT (continued)

### (1) Credit risk

*Credit risk management*

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Group.

*Credit business*

The Risk Management Department, under the supervision of the Chief Risk Officer, is responsible for establishing credit risk management policies and performing credit risk measurement and analysis. The Credit Management Department is responsible for monitoring the implementation of credit risk management policies and coordinating credit approval and credit ratings activities. The Credit Management Department works together with the Corporate Banking Department, the Institutional Banking Department, the International Business Department, the Housing Finance & Personal Lending Department, the Credit Card Center, the Special Assets Resolution Department and the Legal and Compliance Department to implement credit risk management policies and procedures.

With respect to the credit risk management of corporate and institutional business, the Group has sped up the adjustment of its credit portfolio structure, enhanced post-lending monitoring, and refined the industry-specific guideline and policy baseline for credit approval. Management also fine-tuned the credit acceptance and exit policies, and optimised its economic capital and credit risk limit management. All these policies have implemented to improve the overall asset quality. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring. The Group performs pre-lending evaluations by assessing the entity's credit ratings based on internal rating criteria and assessing the risk and rewards with respect to the proposed project. Credit approvals are granted by designated Credit Approval Officers. The Group continually monitors loans, particularly those related to targeted industries, geographical segments, products and clients. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately and measures are implemented to prevent and control risks. In 2009, the Group has further enhanced the parallel operating mechanism through which customer relationship managers and risk managers work independently, improving parallel operating efficiency in the credit business for its medium to large corporate customers.

With respect to the personal credit business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and recommendations to the loan-approval departments for consent. The Group monitors borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the recovery process according to standard personal loan recovery procedures.

To mitigate risks, where appropriate, the Group requests customers to provide collateral and guarantees. It also sets guidelines as to the use and suitability of specific types of collateral, as well as determining evaluation parameters. Collateral structures and legal covenants are regularly reviewed to ensure that they still serve their intended purposes and conform to market practices.

## 58 RISK MANAGEMENT (continued)

### (1) Credit risk (continued)

*Loan grading classification*

The Group adopts a loan risk classification approach to manage the loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their level of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances when one or more events demonstrate there is objective evidence of a loss event which triggers impairment. The allowance for impairment loss on impaired loans and advances is collectively or individually assessed as appropriate.

The core definitions of the five categories of loans and advances are set out below:

Normal: Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.

Special mention: Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.

Substandard: Borrowers' abilities to service their loans are in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.

Doubtful: Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.

Loss: Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

*Treasury business*

For risk management purposes, credit risk arising on debt securities and exposures relating to the Group's derivatives portfolio is managed independently and information thereon is disclosed in (1)(h) and (1)(i) of this notes below. The Group sets credit limits for treasury activities and monitors them regularly with reference to the fair values of the relevant financial instruments.

(Expressed in millions of Renminbi unless otherwise stated)

## 58 RISK MANAGEMENT (continued)

### (1) Credit risk (continued)

#### *(a) Maximum credit risk exposure*

The maximum exposure to credit risk at the balance sheet date without taking into consideration any collateral held or other credit enhancement is represented by the carrying amount of each type of financial assets on the balance sheet after deducting any impairment allowance. A summary of the maximum exposure is as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Deposits with central banks | **1,228,109** | 1,213,137 | **1,227,954** | 1,212,943 |
| Deposits with banks and non-bank financial institutions | **68,524** | 33,096 | **66,637** | 28,425 |
| Placements with banks and non-bank financial institutions | **19,439** | 16,836 | **19,527** | 28,426 |
| Trading debt securities | **34,448** | 47,140 | **29,282** | 44,491 |
| Positive fair value of derivatives | **11,030** | 21,299 | **9,957** | 20,335 |
| Financial assets held under resale agreements | **868,452** | 208,548 | **868,452** | 208,548 |
| Interest receivable | **39,778** | 38,317 | **39,657** | 38,297 |
| Loans and advances to customers | **4,409,152** | 3,683,575 | **4,363,857** | 3,639,940 |
| Available-for-sale debt securities | **551,265** | 535,379 | **550,076** | 536,049 |
| Held-to-maturity investments | **1,217,773** | 1,041,783 | **1,217,552** | 1,041,783 |
| Debt securities classified as receivables | **486,186** | 551,818 | **486,186** | 551,818 |
| Other financial assets | **10,877** | 8,363 | **27,954** | 21,791 |
| Total | **8,945,033** | 7,399,291 | **8,907,091** | 7,372,846 |
| Off-balance sheet credit commitments | **1,696,045** | 1,350,480 | **1,693,466** | 1,348,185 |
| Maximum credit risk exposure | **10,641,078** | 8,749,771 | **10,600,557** | 8,721,031 |

(Expressed in millions of Renminbi unless otherwise stated)

## 58 RISK MANAGEMENT (continued)

### (1) Credit risk (continued)

*(b) Distribution of loans and advances to customers in terms of credit quality is analysed as follows:*

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Individually assessed and impaired gross amount | | **68,916** | 75,042 | **68,769** | 74,956 |
| Allowances for impairment losses | | **(47,860)** | (50,548) | **(47,750)** | (50,478) |
| Subtotal | | **21,056** | 24,494 | **21,019** | 24,478 |
| Collectively assessed and impaired gross amount | | **8,292** | 8,840 | **8,292** | 8,840 |
| Allowances for impairment losses | | **(5,495)** | (5,698) | **(5,495)** | (5,698) |
| Subtotal | | **2,797** | 3,142 | **2,797** | 3,142 |
| Overdue but not impaired | (i) | | | | |
| — less than 90 days | | **23,331** | 28,433 | **23,164** | 28,383 |
| — 90–180 days | | **2,569** | 2,888 | **2,528** | 2,886 |
| Gross amount | | **25,900** | 31,321 | **25,692** | 31,269 |
| Allowances for impairment losses | (ii) | **(1,601)** | (2,074) | **(1,600)** | (2,048) |
| Subtotal | | **24,299** | 29,247 | **24,092** | 29,221 |
| Neither overdue nor impaired | | | | | |
| — Unsecured loans | | **1,227,398** | 941,723 | **1,216,395** | 928,287 |
| — Guaranteed loans | | **939,508** | 786,210 | **936,050** | 784,879 |
| — Loans secured by tangible assets other than monetary assets | | **1,835,566** | 1,579,562 | **1,805,387** | 1,551,246 |
| — Loans secured by monetary assets | | **419,777** | 371,245 | **419,258** | 370,665 |
| Gross amount | | **4,422,249** | 3,678,740 | **4,377,090** | 3,635,077 |
| Allowances for impairment losses | (ii) | **(61,249)** | (52,048) | **(61,141)** | (51,978) |
| Subtotal | | **4,361,000** | 3,626,692 | **4,315,949** | 3,583,099 |
| Total | | **4,409,152** | 3,683,575 | **4,363,857** | 3,639,940 |

## 58 RISK MANAGEMENT (continued)

### (1) Credit risk (continued)

#### (b) *Distribution of loans and advances to customers in terms of credit quality is analysed as follows:* (continued)

Notes:

(i) As at 30 June 2009, the gross amount of loans and advances of the Group, which were overdue but not impaired and were subject to individual assessment, was RMB5,727 million (as at 31 December 2008: RMB7,638 million). The covered portion and uncovered portion of these loans and advances were RMB2,493 million (as at 31 December 2008: RMB5,116 million) and RMB3,234 million (as at 31 December 2008: RMB2,522 million) respectively. The fair value of collateral held against these loans and advances amounted to RMB3,941 million (as at 31 December 2008: RMB7,665 million).

As at 30 June 2009, the gross amount of loans and advances of the Bank, which were overdue but not impaired and were subject to individual assessment, was RMB5,609 million (as at 31 December 2008: RMB7,595 million). The covered portion and uncovered portion of these loans and advances were RMB2,407 million (as at 31 December 2008: RMB5,076 million) and RMB3,202 million (as at 31 December 2008: RMB2,519 million) respectively. The fair value of collateral held against these loans and advances amounted to RMB3,799 million (as at 31 December 2008: RMB7,600 million).

The fair value of collateral was estimated by the Group based on the latest available external valuations adjusted by taking into account the current realisation experience as well as the market situation.

(ii) The balances represent collectively assessed allowances of impairment losses.

(Expressed in millions of Renminbi unless otherwise stated)

# 58 RISK MANAGEMENT (continued)

## (1) Credit risk (continued)

### *(c) Loans and advances to customers analysed by economic sector concentrations*

***Group***

| | 30 June 2009 | | | 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | **Gross loan balance** | **Percentage** | **Balance secured by collateral** | Gross loan balance | Percentage | Balance secured by collateral |
| ***Operations in Mainland China*** | | | | | | |
| Corporate loans and advances | | | | | | |
| — Manufacturing | **762,573** | **17.31%** | **293,467** | 663,350 | 18.05% | 260,224 |
| — Production and supply of electric power, gas and water | **495,791** | **11.26%** | **121,201** | 452,472 | 12.31% | 117,911 |
| — Transportation, storage and postal services | **487,142** | **11.06%** | **214,856** | 426,803 | 11.62% | 204,595 |
| — Real estate | **355,738** | **8.08%** | **302,975** | 329,381 | 8.96% | 279,398 |
| — Leasing and commercial services | **263,805** | **5.99%** | **104,060** | 135,746 | 3.69% | 56,438 |
| — Water, environment and public utility management | **194,048** | **4.41%** | **88,082** | 132,426 | 3.6% | 69,046 |
| — Construction | **126,058** | **2.86%** | **43,806** | 116,551 | 3.17% | 41,882 |
| — Wholesale and retail trade | **123,816** | **2.81%** | **68,401** | 102,590 | 2.79% | 56,577 |
| — Mining | **96,513** | **2.19%** | **16,490** | 90,499 | 2.46% | 14,600 |
| — Education | **91,417** | **2.08%** | **31,322** | 78,870 | 2.15% | 26,118 |
| — Telecommunications, computer services and software | **30,980** | **0.7%** | **6,593** | 25,943 | 0.71% | 5,149 |
| — Others | **176,303** | **4%** | **90,210** | 135,153 | 3.69% | 76,167 |
| **Total corporate loans and advances** | **3,204,184** | **72.75%** | **1,381,463** | 2,689,784 | 73.2% | 1,208,105 |
| **Personal loans and advances** | **948,448** | **21.53%** | **893,631** | 821,531 | 22.36% | 775,171 |
| **Discounted bills** | **251,726** | **5.72%** | **—** | 163,161 | 4.44% | 497 |
| **Total loans and advances to customers in Mainland China** | **4,404,358** | **100%** | **2,275,094** | 3,674,476 | 100% | 1,983,773 |

(Expressed in millions of Renminbi unless otherwise stated)

# 58 RISK MANAGEMENT (continued)

## (1) Credit risk (continued)

### (c) *Loans and advances to customers analysed by economic sector concentrations (continued)*

***Group** (continued)*

| | **30 June 2009** | | | 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | **Gross loan balance** | **Percentage** | **Balance secured by collateral** | Gross loan balance | Percentage | Balance secured by collateral |
| ***Overseas operations*** | | | | | | |
| Corporate loans and advances | | | | | | |
| — Real estate | **26,145** | **21.61%** | **17,051** | 24,730 | 20.7% | 16,381 |
| — Transportation, storage and postal services | **22,348** | **18.47%** | **5,633** | 13,031 | 10.91% | 5,777 |
| — Manufacturing | **18,790** | **15.53%** | **3,622** | 17,524 | 14.67% | 2,948 |
| — Wholesale and retail trade | **12,751** | **10.54%** | **2,707** | 14,863 | 12.44% | 2,676 |
| — Production and supply of electric power, gas and water | **6,675** | **5.52%** | **1,534** | 6,489 | 5.43% | 1,177 |
| — Leasing and commercial services | **3,307** | **2.73%** | **2,725** | 2,877 | 2.41% | 2,529 |
| — Telecommunications, computer services and software | **3,047** | **2.52%** | **536** | 13,685 | 11.46% | 509 |
| — Others | **12,987** | **10.72%** | **4,401** | 12,162 | 10.17% | 5,667 |
| **Total corporate loans and advances** | **106,050** | **87.64%** | **38,209** | 105,361 | 88.19% | 37,664 |
| **Personal loans and advances** | **14,720** | **12.17%** | **14,219** | 13,949 | 11.68% | 13,493 |
| **Discounted bills** | **229** | **0.19%** | **—** | 157 | 0.13% | — |
| **Total loans and advances to customers overseas** | **120,999** | **100%** | **52,428** | 119,467 | 100% | 51,157 |
| **Total gross loans and advances to customers** | **4,525,357** | | **2,327,522** | 3,793,943 | | 2,034,930 |

(Expressed in millions of Renminbi unless otherwise stated)

## 58 RISK MANAGEMENT (continued)

### (1) Credit risk (continued)

*(c) Loans and advances to customers analysed by economic sector concentrations (continued)*

***Group** (continued)*

Details of impaired loans, impairment allowances, charges, and amounts written off in respect of economic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

| | **30 June 2009** | | | | |
|---|---|---|---|---|---|
| | **Gross impaired loans** | **Individually assessed impairment allowances** | **Collectively assessed impairment allowances** | **Charged to profit or loss during the period** | **Written off during the period** |
| Manufacturing | **24,463** | **(16,950)** | **(11,843)** | **2,623** | **900** |
| Transportation, storage and postal services | **5,034** | **(3,112)** | **(7,739)** | **1,210** | **11** |
| Production and supply of electric power, gas and water | **5,072** | **(3,914)** | **(8,684)** | **19** | **10** |

| | 31 December 2008 | | | | |
|---|---|---|---|---|---|
| | Gross impaired loans | Individually assessed impairment allowances | Collectively assessed impairment allowances | Charged to profit or loss during the year | Written off during the year |
| Manufacturing | 24,168 | (17,098) | (10,207) | 7,728 | 2,063 |
| Transportation, storage and postal services | 5,393 | (3,144) | (6,563) | 3,321 | 1,057 |
| Production and supply of electric power, gas and water | 6,672 | (4,490) | (8,148) | 5,224 | 40 |

(Expressed in millions of Renminbi unless otherwise stated)

# 58 RISK MANAGEMENT (continued)

## (1) Credit risk (continued)

### *(c) Loans and advances to customers analysed by economic sector concentrations (continued)*

***Bank***

| | 30 June 2009 | | | 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | Gross loan balance | Percentage | Balance secured by collateral | Gross loan balance | Percentage | Balance secured by collateral |
| ***Operations in Mainland China*** | | | | | | |
| Corporate loans and advances | | | | | | |
| — Manufacturing | 761,288 | 17.3% | 293,447 | 662,138 | 18.04% | 260,224 |
| — Production and supply of electric power, gas and water | 493,360 | 11.21% | 121,198 | 450,240 | 12.27% | 117,911 |
| — Transportation, storage and postal services | 487,103 | 11.07% | 214,856 | 426,803 | 11.63% | 204,595 |
| — Real estate | 355,064 | 8.07% | 302,449 | 329,341 | 8.97% | 279,358 |
| — Leasing and commercial services | 263,805 | 6% | 104,060 | 135,746 | 3.7% | 56,438 |
| — Water, environment and public utility management | 194,048 | 4.41% | 88,082 | 132,426 | 3.61% | 69,046 |
| — Construction | 125,918 | 2.86% | 43,801 | 116,379 | 3.17% | 41,882 |
| — Wholesale and retail trade | 123,816 | 2.81% | 68,401 | 102,590 | 2.79% | 56,577 |
| — Mining | 96,513 | 2.19% | 16,490 | 90,499 | 2.47% | 14,600 |
| — Education | 91,417 | 2.08% | 31,322 | 78,870 | 2.15% | 26,118 |
| — Telecommunications, computer services and software | 30,980 | 0.7% | 6,593 | 25,943 | 0.71% | 5,149 |
| — Others | 176,276 | 4.03% | 90,202 | 135,153 | 3.66% | 76,167 |
| **Total corporate loans and advances** | 3,199,588 | 72.73% | 1,380,901 | 2,686,128 | 73.17% | 1,208,065 |
| **Personal loans and advances** | 947,973 | 21.55% | 893,517 | 821,351 | 22.38% | 775,169 |
| **Discounted bills** | 251,726 | 5.72% | – | 163,161 | 4.45% | 497 |
| **Total loans and advances to customers in Mainland China** | 4,399,287 | 100% | 2,274,418 | 3,670,640 | 100% | 1,983,731 |

(Expressed in millions of Renminbi unless otherwise stated)

## 58 RISK MANAGEMENT (continued)

### (1) Credit risk (continued)

*(c) Loans and advances to customers analysed by economic sector concentrations (continued)*

***Bank** (continued)*

| | 30 June 2009 | | | 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | Gross loan balance | Percentage | Balance secured by collateral | Gross loan balance | Percentage | Balance secured by collateral |
| ***Overseas operations*** | | | | | | |
| Corporate loans and advances | | | | | | |
| — Transportation, storage and postal services | 20,317 | 25.22% | 5,569 | 11,726 | 14.75% | 5,704 |
| — Manufacturing | 16,370 | 20.32% | 2,962 | 12,634 | 15.89% | 2,378 |
| — Real estate | 13,053 | 16.2% | 5,529 | 12,501 | 15.72% | 5,192 |
| — Wholesale and retail trade | 10,274 | 12.75% | 1,630 | 10,573 | 13.3% | 1,638 |
| — Production and supply of electric power, gas and water | 6,332 | 7.86% | 1,534 | 6,268 | 7.88% | 1,177 |
| — Leasing and commercial services | 3,307 | 4.11% | 2,725 | 2,877 | 3.62% | 2,529 |
| — Telecommunications, computer services and software | 2,905 | 3.61% | 520 | 13,518 | 17% | 493 |
| — Others | 7,752 | 9.63% | 1,748 | 9,235 | 11.62% | 3,126 |
| **Total corporate loans and advances** | 80,310 | 99.7% | 22,217 | 79,332 | 99.78% | 22,237 |
| **Personal loans and advances** | 17 | 0.02% | 17 | 13 | 0.02% | 13 |
| **Discounted bills** | 229 | 0.28% | – | 157 | 0.2% | – |
| **Total loans and advances to customers overseas** | 80,556 | 100% | 22,234 | 79,502 | 100% | 22,250 |
| **Total gross loans and advances to customers** | 4,479,843 | | 2,296,652 | 3,750,142 | | 2,005,981 |

(Expressed in millions of Renminbi unless otherwise stated)

## 58 RISK MANAGEMENT (continued)

### (1) Credit risk (continued)

#### (c) *Loans and advances to customers analysed by economic sector concentrations (continued)*

***Bank** (continued)*

Details of impaired loans, impairment allowances, charges, and amounts written off in respect of economic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

| | 30 June 2009 | | | | |
|---|---|---|---|---|---|
| | Gross impaired loans | Individually assessed impairment allowances | Collectively assessed impairment allowances | Charged to profit or loss during the period | Written off during the period |
| Manufacturing | 24,334 | (16,844) | (11,827) | 2,608 | 900 |
| Transportation, storage and postal services | 5,034 | (3,112) | (7,734) | 1,210 | 11 |
| Production and supply of electric power, gas and water | 5,072 | (3,914) | (8,660) | 18 | 10 |

| | 31 December 2008 | | | | |
|---|---|---|---|---|---|
| | Gross impaired loans | Individually assessed impairment allowances | Collectively assessed impairment allowances | Charged to profit or loss during the year | Written off during the year |
| Manufacturing | 24,094 | (17,039) | (10,192) | 7,680 | 2,062 |
| Transportation, storage and postal services | 5,393 | (3,144) | (6,560) | 3,321 | 1,057 |
| Production and supply of electric power, gas and water | 6,672 | (4,490) | (8,127) | 5,203 | 40 |

#### (d) *Loans and advances to customers analysed by geographical sector concentrations*

***Group***

| | 30 June 2009 | | | 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | Gross loan balance | Percentage | Balance secured by collateral | Gross loan balance | Percentage | Balance secured by collateral |
| Yangtze River Delta | 1,075,760 | 23.77% | 621,525 | 922,104 | 24.3% | 554,829 |
| Bohai Rim | 822,886 | 18.18% | 341,387 | 691,638 | 18.23% | 303,721 |
| Western | 769,270 | 17% | 413,303 | 635,905 | 16.76% | 355,462 |
| Central | 735,147 | 16.25% | 362,922 | 607,335 | 16.01% | 317,762 |
| Pearl River Delta | 683,713 | 15.11% | 400,806 | 544,999 | 14.36% | 337,690 |
| Northeastern | 283,081 | 6.26% | 134,654 | 233,468 | 6.15% | 113,758 |
| Head office | 34,501 | 0.76% | 497 | 39,027 | 1.03% | 551 |
| Overseas | 120,999 | 2.67% | 52,428 | 119,467 | 3.16% | 51,157 |
| Gross loans and advances to customers | 4,525,357 | 100% | 2,327,522 | 3,793,943 | 100% | 2,034,930 |

(Expressed in millions of Renminbi unless otherwise stated)

## 58 RISK MANAGEMENT (continued)

### (1) Credit risk (continued)

*(d) Loans and advances to customers analysed by geographical sector concentrations (continued)*

***Group** (continued)*

Details of impaired loans and impairment allowances in respect of geographic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

| | 30 June 2009 | | |
|---|---|---|---|
| | Gross impaired loans | Individually assessed impairment allowances | Collectively assessed impairment allowances |
| Bohai Rim | 16,200 | (10,981) | (12,543) |
| Yangtze River Delta | 15,604 | (7,886) | (15,061) |
| Central | 13,310 | (8,344) | (10,959) |
| Western | 11,777 | (8,239) | (14,375) |
| Pearl River Delta | 10,500 | (6,742) | (9,701) |

| | 31 December 2008 | | |
|---|---|---|---|
| | Gross impaired loans | Individually assessed impairment allowances | Collectively assessed impairment allowances |
| Bohai Rim | 18,981 | (12,492) | (11,233) |
| Western | 16,362 | (9,655) | (12,436) |
| Central | 13,597 | (8,596) | (9,615) |
| Yangtze River Delta | 13,300 | (6,545) | (13,345) |
| Pearl River Delta | 11,609 | (6,960) | (8,115) |

The definitions of geographical segments are set out in Note 53(1).

(Expressed in millions of Renminbi unless otherwise stated)

## 58 RISK MANAGEMENT (continued)

### (1) Credit risk (continued)

#### (d) *Loans and advances to customers analysed by geographical sector concentrations (continued)*

***Bank***

| | 30 June 2009 | | | 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | Gross loan balance | Percentage | Balance secured by collateral | Gross loan balance | Percentage | Balance secured by collateral |
| Yangtze River Delta | 1,075,680 | 24.01% | 621,517 | 922,104 | 24.59% | 554,829 |
| Bohai Rim | 820,883 | 18.32% | 340,785 | 690,452 | 18.41% | 303,681 |
| Western | 766,805 | 17.12% | 413,303 | 633,681 | 16.9% | 355,462 |
| Central | 735,024 | 16.41% | 362,856 | 607,313 | 16.19% | 317,760 |
| Pearl River Delta | 683,713 | 15.26% | 400,806 | 544,999 | 14.53% | 337,690 |
| Northeastern | 282,681 | 6.31% | 134,654 | 233,064 | 6.21% | 113,758 |
| Head office | 34,501 | 0.77% | 497 | 39,027 | 1.04% | 551 |
| Overseas | 80,556 | 1.8% | 22,234 | 79,502 | 2.13% | 22,250 |
| Gross loans and advances to customers | 4,479,843 | 100% | 2,296,652 | 3,750,142 | 100% | 2,005,981 |

Details of impaired loans and impairment allowances in respect of geographic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

| | 30 June 2009 | | |
|---|---|---|---|
| | Gross impaired loans | Individually assessed impairment allowances | Collectively assessed impairment allowances |
| Bohai Rim | 16,200 | (10,981) | (12,523) |
| Yangtze River Delta | 15,604 | (7,886) | (15,060) |
| Central | 13,310 | (8,344) | (10,958) |
| Western | 11,777 | (8,239) | (14,352) |
| Pearl River Delta | 10,500 | (6,742) | (9,701) |

(Expressed in millions of Renminbi unless otherwise stated)

## 58 RISK MANAGEMENT (continued)

### (1) Credit risk (continued)

*(d) Loans and advances to customers analysed by geographical sector concentrations (continued)*

***Bank** (continued)*

| | 31 December 2008 | | |
|---|---|---|---|
| | Gross impaired loans | Individually assessed impairment allowances | Collectively assessed impairment allowances |
| Bohai Rim | 18,981 | (12,492) | (11,221) |
| Western | 16,362 | (9,655) | (12,415) |
| Central | 13,597 | (8,596) | (9,615) |
| Yangtze River Delta | 13,300 | (6,545) | (13,345) |
| Pearl River Delta | 11,609 | (6,960) | (8,115) |

The definitions of geographical segments are set out in Note 53(1).

*(e) Loans and advances to customers analysed by types of collateral*

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Unsecured loans | **1,233,515** | 947,785 | **1,222,332** | 934,264 |
| Guaranteed loans | **964,320** | 811,228 | **960,859** | 809,897 |
| Loans secured by tangible assets other than monetary assets | **1,899,318** | 1,650,208 | **1,868,975** | 1,621,839 |
| Loans secured by monetary assets | **428,204** | 384,722 | **427,677** | 384,142 |
| Gross loans and advances to customers | **4,525,357** | 3,793,943 | **4,479,843** | 3,750,142 |

(Expressed in millions of Renminbi unless otherwise stated)

## 58 RISK MANAGEMENT (continued)

### (1) Credit risk (continued)

*(f) Rescheduled loans and advances to customers*

***Group***

| | 30 June 2009 | | 31 December 2008 | |
|---|---|---|---|---|
| | Total | % of gross loans and advances to customers | Total | % of gross loans and advances to customers |
| Rescheduled loans and advances to customers | 3,444 | 0.08% | 3,376 | 0.09% |
| Less: | | | | |
| Rescheduled loans and advances overdue for more than 90 days | (2,067) | (0.05%) | (1,196) | (0.03%) |
| Rescheduled loans and advances overdue for not more than 90 days | 1,377 | 0.03% | 2,180 | 0.06% |

***Bank***

| | 30 June 2009 | | 31 December 2008 | |
|---|---|---|---|---|
| | Total | % of gross loans and advances to customers | Total | % of gross loans and advances to customers |
| Rescheduled loans and advances to customers | 3,420 | 0.08% | 3,354 | 0.09% |
| Less: | | | | |
| Rescheduled loans and advances overdue for more than 90 days | (2,065) | (0.05%) | (1,194) | (0.03%) |
| Rescheduled loans and advances overdue for not more than 90 days | 1,355 | 0.03% | 2,160 | 0.06% |

(Expressed in millions of Renminbi unless otherwise stated)

## 58 RISK MANAGEMENT (continued)

### (1) Credit risk (continued)

*(g) Distribution of amounts due from banks and non-bank financial institutions in terms of credit quality is as follows:*

Amount due from banks and non-bank financial institutions includes deposits with banks and non-bank financial institutions, placements with banks and non-bank financial institutions and financial assets held under resale agreements of which counterparties are banks and non-bank financial institutions.

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Individually assessed and impaired gross amount | **232** | 341 | **232** | 341 |
| Allowances for impairment losses | **(193)** | (284) | **(193)** | (284) |
| Subtotal | **39** | 57 | **39** | 57 |
| Neither overdue nor impaired | | | | |
| — grade A to AAA | **202,477** | 83,816 | **200,000** | 76,297 |
| — grade B to BBB | **1,133** | 759 | **1,133** | 759 |
| — unrated | **60,846** | 39,828 | **61,524** | 54,266 |
| Subtotal | **264,456** | 124,403 | **262,657** | 131,322 |
| Total | **264,495** | 124,460 | **262,696** | 131,379 |

Amounts neither overdue nor impaired are analysed above according to the Group and the Bank's internal credit rating. Unrated amounts due from banks and non-bank financial institutions include amounts due from a number of domestic banks and non-bank financial institutions for which the Group and the Bank have not assigned an internal credit rating.

(Expressed in millions of Renminbi unless otherwise stated)

## 58 RISK MANAGEMENT (continued)

### (1) Credit risk (continued)

*(h) Distribution of debt securities investments analysed by rating*

The Group adopts a credit rating approach to manage the credit risk of the debt securities portfolio held by its operations in Mainland China. Debt securities are rated with reference to Bloomberg Composite, or major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations at the balance sheet date are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Individually assessed and impaired gross amount | **28,588** | 37,281 | **28,588** | 37,281 |
| Allowances for impairment losses | **(15,156)** | (17,836) | **(15,156)** | (17,836) |
| Subtotal | **13,432** | 19,445 | **13,432** | 19,445 |
| *Neither overdue nor impaired* | | | | |
| Bloomberg Composite | | | | |
| — AAA | **10,642** | 36,826 | **10,642** | 36,826 |
| — AA- to AA+ | **4,665** | 8,562 | **4,665** | 8,562 |
| — A- to A+ | **8,438** | 16,512 | **8,438** | 16,512 |
| — lower than A- | **1,490** | 1,647 | **1,490** | 1,647 |
| Subtotal | **25,235** | 63,547 | **25,235** | 63,547 |
| Other agency ratings | | | | |
| — AAA | **339,194** | 298,697 | **339,194** | 298,697 |
| — AA- to AA+ | **10,481** | 7,139 | **10,431** | 7,139 |
| — A- to A+ | **1,872,825** | 1,762,087 | **1,872,825** | 1,762,087 |
| — lower than A- | **1** | 1 | **1** | 1 |
| Subtotal | **2,222,501** | 2,067,924 | **2,222,451** | 2,067,924 |
| Subtotal of debt securities held by operations in Mainland China | **2,261,168** | 2,150,916 | **2,261,118** | 2,150,916 |
| Debt securities held by overseas operations | **28,504** | 25,204 | **21,978** | 23,225 |
| Total | **2,289,672** | 2,176,120 | **2,283,096** | 2,174,141 |

## 58 RISK MANAGEMENT (continued)

### (1) Credit risk (continued)

*(h) Distribution of debt securities investments analysed by rating (continued)*

Amounts of debts securities rated from A- to A+ include those issued by the PRC government, PBC and PRC policy banks amounting to RMB1,475,187 million (as at 31 December 2008: RMB1,429,641 million).

*(i) Credit risk arising from the Group's derivatives exposures*

The majority of the Group's derivatives transactions with domestic customers are hedged back-to-back with overseas banks and non-bank financial institutions. The Group is exposed to credit risk both in respect of the domestic customers and the overseas banks and non-bank financial institutions. The Group manages this risk by monitoring this exposure on a regular basis.

*(j) Settlement risk*

The Group's activities may give rise to settlement risk at the time of the settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement or clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

## 58 RISK MANAGEMENT (continued)

### (2) Market risk

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

The Risk Management Department is responsible for formulating a standardised market risk management policies and rules and supervising the implementation of market risk management policies and rules of the Bank. The Asset and Liability Management Department (the "ALM") is responsible for managing the size and structure of the balance sheet in response to non-trading market risk. The Financial Market Department manages the Head Office's RMB and foreign currency investment portfolios, conducts proprietary and customer-driven transactions, as well as implementing market risk management policies and rules. The Audit Department is responsible for regularly performing independent audits of the reliability and effectiveness of the processes constituting the risk management system.

The Group is primarily exposed to structural interest rate risk arising from interest generating commercial banking assets and interest bearing commercial banking liabilities. Interest rate risk is inherent in many of its businesses and largely arises from mismatches between the re-pricing dates of assets and liabilities. The Group manages this risk through regular interest rate gap analysis.

The Group's foreign exchange exposure mainly comprises exposures from foreign currency portfolios within treasury proprietary investments in debt securities and money market placements, and currency exposures from its overseas business. The Group manages its foreign exchange exposure by entering into cross currency interest rate swaps to hedge these exposures on a portfolio basis.

The Group is also exposed to market risk in respect of its customer driven derivatives portfolio and manages this risk by entering into back-to-back hedging transactions on a trade-by-trade basis with overseas banks and non-bank financial institutions.

The Group considers that the market risk arising from commodity or stock prices in respect of its investment portfolios is minimal.

The Group monitors market risk separately in respect of trading portfolios and non-trading portfolios. Trading portfolios include exchange rate and interest rate derivatives as well as trading securities. The historical simulation model for the Value-at-risk ("VaR") analysis is a major tool used by the Bank to measure and monitor the market risk of its trading portfolio and available-for-sale debt securities. Net interest income sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major tools used by the Group to monitor the market risk of its overall businesses.

(Expressed in millions of Renminbi unless otherwise stated)

## 58 RISK MANAGEMENT (continued)

### (2) Market risk (continued)

#### (a) *VaR analysis*

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices over a specified time horizon and at a given level of confidence. The Risk Management Department calculates interest rate VaR for the Bank's debt investments as well as interest rate and exchange rate VaR for the Bank's derivatives. By reference to historical movements in market rates and prices, the Risk Management Department calculates VaR on a daily basis for foreign currency portfolio and at least on a weekly basis for RMB portfolios. VaR is calculated at a confidence level of 99% and with a holding period of one day.

A summary of the VaR of the Bank's trading portfolio and available-for-sale debt securities as at the balance sheet date and during the respective period is as follows:

| | Six months ended 30 June 2009 | | | |
|---|---|---|---|---|
| | **As at 30 June** | **Average** | **Maximum** | **Minimum** |
| **RMB trading portfolio** | | | | |
| Interest rate risk | **17** | **16** | **21** | **8** |
| **RMB available-for-sale debt securities** | | | | |
| Interest rate risk | **712** | **522** | **712** | **302** |
| **Foreign currency trading portfolio** | | | | |
| Interest rate risk | **100** | **113** | **141** | **103** |
| Foreign currency risk | **444** | **811** | **1,123** | **442** |
| Diversification | **(81)** | **(74)** | **(115)** | **(85)** |
| | **463** | **850** | **1,149** | **460** |
| **Foreign currency available-for-sale debt securities** | | | | |
| Interest rate risk | **161** | **167** | **330** | **106** |

As at 30 June 2009 and for the six months ended 30 June 2009, the VaR of foreign currency trading portfolio includes derivatives which were used for the purpose of economically hedging foreign currency risk.

(Expressed in millions of Renminbi unless otherwise stated)

## 58 RISK MANAGEMENT (continued)

### (2) Market risk (continued)

#### *(a) VaR analysis (continued)*

| | Six months ended 30 June 2008 | | | |
|---|---|---|---|---|
| | As at 30 June | Average | Maximum | Minimum |
| **RMB trading portfolio** | | | | |
| Interest rate risk | 27 | 16 | 27 | 5 |
| **RMB available-for-sale debt securities** | | | | |
| Interest rate risk | 466 | 440 | 532 | 287 |
| **Foreign currency trading portfolio** | | | | |
| Interest rate risk | 59 | 83 | 109 | 60 |
| Foreign currency risk | 196 | 185 | 192 | 122 |
| Diversification | (59) | (66) | (69) | (55) |
| | 196 | 202 | 232 | 127 |
| **Foreign currency available-for-sale debt securities** | | | | |
| Interest rate risk | 475 | 554 | 676 | 465 |

The above average, maximum and minimum VaR for interest rate risk, foreign currency risk and diversification of the foreign currency trading portfolio represent a breakdown of the average, maximum and minimum VaR for the whole portfolio and not the individual average, maximum and minimum VaR for each risk within the portfolio.

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

— A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;

— A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is one percent probability that losses could exceed the VaR;

— VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;

— The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and

— The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

## 58 RISK MANAGEMENT (continued)

### (2) Market risk (continued)

#### *(b) Net interest income sensitivity analysis*

In monitoring interest rate risk on its overall non-derivative financial assets and liabilities, the Bank regularly measures its future net interest income sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position). An incremental 100 basis points parallel fall or rise in all yield curves, other than that applicable to balances with central banks, would increase or decrease planned net interest income for the next twelve months from the reporting date by RMB26,746 million (as at 31 December 2008: RMB24,449 million). Had the impact of yield curves movement for demand deposits from customers been excluded, the planned net interest income for the next twelve months from the reporting date would decrease or increase by RMB16,618 million (as at 31 December 2008: RMB11,203 million).

The above interest rate sensitivity is for illustration purposes only and is assessed based on simplified assumptions. The figures here indicate estimated net interest income movements under various predicted yield curve scenarios and subject to the Bank's current interest rate exposures. However, account has not been taken of the possible risk management measures that can be undertaken by the Risk Management Department or related business departments to mitigate interest rate risk. In practice, the Risk Management Department strives to reduce loss arising from interest rate risk while increasing its net income. These figures are estimated on the assumption that the interest rates on various maturities will move within similar ranges, and therefore do not reflect the potential net interest income changes in the event that interest rates on some maturities may change and others remain unchanged. Moreover, the above estimations are based on other simplified assumptions, including that all positions will be held to maturity and rolled over upon maturity.

#### *(c) Interest rate repricing gap analysis*

Interest rate risk is inherent in many of the Group's businesses. It mainly arises from mismatches between the repricing dates of assets and liabilities.

The ALM regularly monitors such interest rate risk positions. In terms of measuring and managing the interest rate risk, the Group regularly measures interest rate repricing gaps. The primary objective of interest rate repricing gaps is to analyse potential adverse effects on net interest income due to interest rate movements.

(Expressed in millions of Renminbi unless otherwise stated)

# 58 RISK MANAGEMENT (continued)

## (2) Market risk (continued)

### (c) *Interest rate repricing gap analysis (continued)*

The following tables indicate the effective interest rates as at the balance sheet date and during the respective period, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities.

***Group***

| | | 30 June 2009 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Note | Effective interest rate Note (i) | Non-interest bearing | Less than three months | Between three months and one year | Between one year and five years | More than five years | Total |
| **Assets** | | | | | | | | |
| Cash and deposits with central banks | | 1.45% | 51,466 | 1,210,886 | — | — | — | 1,262,352 |
| Deposits and placements with banks and non-bank financial institutions | | 1.24% | — | 77,066 | 10,888 | — | 9 | 87,963 |
| Financial assets held under resale agreements | | 1.03% | — | 696,362 | 172,090 | — | — | 868,452 |
| Loans and advances to customers | (ii) | 5.69% | — | 1,103,838 | 3,259,412 | 18,257 | 27,645 | 4,409,152 |
| Investments | (iii) | 3.28% | 26,141 | 810,605 | 502,648 | 623,949 | 352,470 | 2,315,813 |
| Other assets | | — | 166,439 | — | — | — | — | 166,439 |
| **Total assets** | | 4.04% | 244,046 | 3,898,757 | 3,945,038 | 642,206 | 380,124 | 9,110,171 |
| **Liabilities** | | | | | | | | |
| Borrowings from central banks | | 1.89% | — | 6 | — | — | — | 6 |
| Deposits and placements from banks and non-bank financial institutions | | 1.94% | — | 576,477 | 46,977 | 100,580 | — | 724,034 |
| Trading financial liabilities | | 3.7% | — | 100 | — | — | — | 100 |
| Financial assets sold under repurchase agreements | | 2.01% | — | 290 | 192 | — | — | 482 |
| Deposits from customers | | 1.65% | 18,417 | 5,297,942 | 1,839,511 | 444,844 | 9,308 | 7,610,022 |
| Debt securities issued | | 4.04% | — | 35,463 | 18,379 | 14,844 | 27,949 | 96,635 |
| Other liabilities | | — | 172,358 | — | — | — | — | 172,358 |
| **Total liabilities** | | 1.7% | 190,775 | 5,910,278 | 1,905,059 | 560,268 | 37,257 | 8,603,637 |
| **Asset-liability gap** | | 2.34% | 53,271 | (2,011,521) | 2,039,979 | 81,938 | 342,867 | 506,534 |

(Expressed in millions of Renminbi unless otherwise stated)

# 58 RISK MANAGEMENT (continued)

## (2) Market risk (continued)

### *(c) Interest rate repricing gap analysis (continued)*

***Group** (continued)*

| | Note | 31 December 2008<br>Effective interest rate Note (i) | Non-interest bearing | Less than three months | Between three months and one year | Between one year and five years | More than five years | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and deposits with central banks | | 1.77% | 34,313 | 1,213,137 | — | — | — | 1,247,450 |
| Deposits and placements with banks and non-bank financial institutions | | 2.53% | — | 45,014 | 4,909 | — | 9 | 49,932 |
| Financial assets held under resale agreements | | 3.48% | — | 195,996 | 12,552 | — | — | 208,548 |
| Loans and advances to customers | (ii) | 7.16% | — | 1,675,358 | 1,941,878 | 26,454 | 39,885 | 3,683,575 |
| Investments | (iii) | 3.64% | 20,356 | 101,455 | 1,025,695 | 717,620 | 331,350 | 2,196,476 |
| Other assets | | — | 169,471 | — | — | — | — | 169,471 |
| **Total assets** | | 5.13% | 224,140 | 3,230,960 | 2,985,034 | 744,074 | 371,244 | 7,555,452 |
| **Liabilities** | | | | | | | | |
| Borrowings from central banks | | 1.89% | — | 6 | — | — | — | 6 |
| Deposits and placements from banks and non-bank financial institutions | | 1.83% | — | 392,589 | 18,123 | 79,860 | — | 490,572 |
| Trading financial liabilities | | 3.83% | — | 2,663 | 1,093 | 75 | 144 | 3,975 |
| Financial assets sold under repurchase agreements | | 3.09% | — | 864 | — | — | — | 864 |
| Deposits from customers | | 2.03% | 25,618 | 4,462,409 | 1,476,902 | 405,761 | 5,225 | 6,375,915 |
| Debt securities issued | | 4.73% | — | 8,060 | 41,966 | 3,784 | — | 53,810 |
| Other liabilities | | — | 162,748 | — | — | — | — | 162,748 |
| **Total liabilities** | | 2.03% | 188,366 | 4,866,591 | 1,538,084 | 489,480 | 5,369 | 7,087,890 |
| **Asset-liability gap** | | 3.1% | 35,774 | (1,635,631) | 1,446,950 | 254,594 | 365,875 | 467,562 |

Notes:

(i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) For loans and advances to customers, the "less than three months" category includes overdue amounts (net of allowances for impairment losses) of RMB43,351 million as at 30 June 2009 (as at 31 December 2008: RMB38,482 million).

(iii) Investments include trading financial assets, available-for-sale financial assets, held-to-maturity investment, debt securities classified as receivables and investments in associates and jointly controlled entities.

(Expressed in millions of Renminbi unless otherwise stated)

# 58 RISK MANAGEMENT (continued)

## (2) Market risk (continued)

### (c) Interest rate repricing gap analysis (continued)

**Bank**

| | Note | 30 June 2009 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Effective interest rate Note (i) | Non-interest bearing | Less than three months | Between three months and one year | Between one year and five years | More than five years | Total |
| **Assets** | | | | | | | | |
| Cash and deposits with central banks | | 1.45% | 51,302 | 1,210,731 | — | — | — | 1,262,033 |
| Deposits and placements with banks and non-bank financial institutions | | 1.21% | — | 75,630 | 10,525 | — | 9 | 86,164 |
| Financial assets held under resale agreements | | 1.03% | — | 696,362 | 172,090 | — | — | 868,452 |
| Loans and advances to customers | (ii) | 5.72% | — | 1,064,274 | 3,254,326 | 17,979 | 27,278 | 4,363,857 |
| Investments | (iii) | 3.27% | 25,351 | 809,505 | 499,949 | 622,083 | 351,559 | 2,308,447 |
| Other assets | | — | 180,666 | — | — | — | — | 180,666 |
| **Total assets** | | 4.05% | 257,319 | 3,856,502 | 3,936,890 | 640,062 | 378,846 | 9,069,619 |
| **Liabilities** | | | | | | | | |
| Borrowings from central banks | | 1.89% | — | 6 | — | — | — | 6 |
| Deposits and placements from banks and non-bank financial institutions | | 1.94% | — | 577,446 | 46,255 | 100,580 | — | 724,281 |
| Trading financial liabilities | | 3.7% | — | 100 | — | — | — | 100 |
| Financial assets sold under repurchase agreements | | 2.01% | — | 290 | 192 | — | — | 482 |
| Deposits from customers | | 1.66% | 18,562 | 5,266,176 | 1,837,434 | 444,080 | 9,296 | 7,575,548 |
| Debt securities issued | | 4.02% | — | 36,696 | 18,379 | 14,974 | 27,949 | 97,998 |
| Other liabilities | | — | 169,657 | — | — | — | — | 169,657 |
| **Total liabilities** | | 1.71% | 188,219 | 5,880,714 | 1,902,260 | 559,634 | 37,245 | 8,568,072 |
| **Asset-liability gap** | | 2.34% | 69,100 | (2,024,212) | 2,034,630 | 80,428 | 341,601 | 501,547 |

(Expressed in millions of Renminbi unless otherwise stated)

## 58 RISK MANAGEMENT (continued)

### (2) Market risk (continued)

#### (c) *Interest rate repricing gap analysis (continued)*

***Bank** (continued)*

| | Note | Effective interest rate Note (i) | Non-interest bearing | Less than three months | Between three months and one year | Between one year and five years | More than five years | Total |
|---|---|---|---|---|---|---|---|---|
| | | 31 December 2008 | | | | | | |
| **Assets** | | | | | | | | |
| Cash and deposits with central banks | | 1.77% | 34,110 | 1,212,943 | — | — | — | 1,247,053 |
| Deposits and placements with banks and non-bank financial institutions | | 2.78% | — | 51,018 | 5,824 | — | 9 | 56,851 |
| Financial assets held under resale agreements | | 3.48% | — | 195,996 | 12,552 | — | — | 208,548 |
| Loans and advances to customers | (ii) | 7.19% | — | 1,632,953 | 1,941,111 | 26,064 | 39,812 | 3,639,940 |
| Investments | (iii) | 3.64% | 19,777 | 102,051 | 1,024,095 | 716,703 | 331,292 | 2,193,918 |
| Other assets | | — | 180,258 | — | — | — | — | 180,258 |
| **Total assets** | | 5.14% | 234,145 | 3,194,961 | 2,983,582 | 742,767 | 371,113 | 7,526,568 |
| **Liabilities** | | | | | | | | |
| Borrowings from central banks | | 1.89% | — | 6 | — | — | — | 6 |
| Deposits and placements from banks and non-bank financial institutions | | 1.91% | — | 403,319 | 18,473 | 79,860 | — | 501,652 |
| Trading financial liabilities | | 3.83% | — | 2,663 | 1,093 | 75 | 144 | 3,975 |
| Financial assets sold under repurchase agreements | | 3.09% | — | 864 | — | — | — | 864 |
| Deposits from customers | | 2.03% | 25,618 | 4,432,433 | 1,474,691 | 405,028 | 5,215 | 6,342,985 |
| Debt securities issued | | 4.76% | — | 6,651 | 41,966 | 3,914 | — | 52,531 |
| Other liabilities | | — | 160,999 | — | — | — | — | 160,999 |
| **Total liabilities** | | 2.05% | 186,617 | 4,845,936 | 1,536,223 | 488,877 | 5,359 | 7,063,012 |
| **Asset-liability gap** | | 3.09% | 47,528 | (1,650,975) | 1,447,359 | 253,890 | 365,754 | 463,556 |

Notes:

(i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) For loans and advances to customers, the "less than three months" category includes overdue amounts (net of allowances for impairment losses) of RMB43,141 million as at 30 June 2009 (as at 31 December 2008: RMB38,473 million).

(iii) Investments include trading financial assets, available-for-sale financial assets, held-to-maturity investments, debt securities classified as receivables and investments in subsidiaries.

#### (d) *Currency risk*

The Group's foreign exchange exposure mainly comprises exposures that arise from the foreign currency portfolio within the treasury's proprietary investments, and currency exposures originated by the Group's overseas businesses.

The Group manages other currency risk by spot and forward foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives (principally foreign exchange swaps and cross currency swaps) in the management of its own foreign currency asset and liability portfolios and structural positions (Note 17).

(Expressed in millions of Renminbi unless otherwise stated)

# 58 RISK MANAGEMENT (continued)

## (2) Market risk (continued)

### *(d) Currency risk (continued)*

The currency exposures of the Group's and the Bank's assets and liabilities at the balance sheet date are as follows:

***Group***

| | Note | 30 June 2009 | | | |
|---|---|---|---|---|---|
| | | RMB | USD (RMB equivalent) | Others (RMB equivalent) | Total |
| **Assets** | | | | | |
| Cash and deposits with central banks | | 1,241,230 | 5,639 | 15,483 | 1,262,352 |
| Deposits and placements with banks and non-bank financial institutions | (i) | 915,051 | 35,762 | 5,602 | 956,415 |
| Loans and advances to customers | | 4,183,894 | 138,903 | 86,355 | 4,409,152 |
| Investments | | 2,243,095 | 54,433 | 18,285 | 2,315,813 |
| Other assets | | 153,598 | 6,668 | 6,173 | 166,439 |
| **Total assets** | | 8,736,868 | 241,405 | 131,898 | 9,110,171 |
| **Liabilities** | | | | | |
| Borrowings from central banks | | 6 | — | — | 6 |
| Deposits and placements from banks and non-bank financial institutions | (ii) | 654,302 | 54,795 | 15,419 | 724,516 |
| Trading financial liabilities | | — | 74 | 26 | 100 |
| Deposits from customers | | 7,417,775 | 105,775 | 86,472 | 7,610,022 |
| Debt securities issued | | 82,745 | 5,855 | 8,035 | 96,635 |
| Other liabilities | | 158,030 | 4,206 | 10,122 | 172,358 |
| **Total liabilities** | | 8,312,858 | 170,705 | 120,074 | 8,603,637 |
| **Net position on balance sheet** | | 424,010 | 70,700 | 11,824 | 506,534 |
| **Net notional amount of derivatives** | | 65,474 | (68,182) | 2,963 | 255 |
| **Overall net position** | | 489,484 | 2,518 | 14,787 | 506,789 |

(Expressed in millions of Renminbi unless otherwise stated)

## 58 RISK MANAGEMENT (continued)

### (2) Market risk (continued)

*(d) Currency risk (continued)*

***Group** (continued)*

| | Note | RMB | USD (RMB equivalent) | Others (RMB equivalent) | Total |
|---|---|---|---|---|---|
| | | 31 December 2008 | | | |
| **Assets** | | | | | |
| Cash and deposits with central banks | | 1,230,907 | 8,248 | 8,295 | 1,247,450 |
| Deposits and placements with banks and non-bank financial institutions | (i) | 239,646 | 12,327 | 6,507 | 258,480 |
| Loans and advances to customers | | 3,478,643 | 128,092 | 76,840 | 3,683,575 |
| Investments | | 2,084,361 | 93,412 | 18,703 | 2,196,476 |
| Other assets | | 150,198 | 5,015 | 14,258 | 169,471 |
| **Total assets** | | 7,183,755 | 247,094 | 124,603 | 7,555,452 |
| **Liabilities** | | | | | |
| Borrowings from central banks | | 6 | — | — | 6 |
| Deposits and placements from banks and non-bank financial institutions | (ii) | 432,779 | 44,784 | 13,873 | 491,436 |
| Trading financial liabilities | | 1,881 | 1,401 | 693 | 3,975 |
| Deposits from customers | | 6,200,337 | 95,610 | 79,968 | 6,375,915 |
| Debt securities issued | | 42,802 | 3,699 | 7,309 | 53,810 |
| Other liabilities | | 152,096 | 6,105 | 4,547 | 162,748 |
| **Total liabilities** | | 6,829,901 | 151,599 | 106,390 | 7,087,890 |
| **Net position on balance sheet** | | 353,854 | 95,495 | 18,213 | 467,562 |
| **Net notional amount of derivatives** | | 100,333 | (99,012) | 1,066 | 2,387 |
| **Overall net position** | | 454,187 | (3,517) | 19,279 | 469,949 |

Notes:

(i) Including financial assets held under resale agreements

(ii) Including financial assets sold under repurchase agreements

(Expressed in millions of Renminbi unless otherwise stated)

# 58 RISK MANAGEMENT (continued)

## (2) Market risk (continued)

### (d) Currency risk (continued)

***Bank***

| | Note | 30 June 2009 RMB | USD (RMB equivalent) | Others (RMB equivalent) | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and deposits with central banks | | 1,241,073 | 5,639 | 15,321 | 1,262,033 |
| Deposits and placements with banks and non-bank financial institutions | (i) | 914,427 | 34,719 | 5,470 | 954,616 |
| Loans and advances to customers | | 4,178,872 | 134,195 | 50,790 | 4,363,857 |
| Investments | | 2,245,018 | 50,123 | 13,306 | 2,308,447 |
| Other assets | | 153,662 | 22,662 | 4,342 | 180,666 |
| **Total assets** | | 8,733,052 | 247,338 | 89,229 | 9,069,619 |
| **Liabilities** | | | | | |
| Borrowings from central banks | | 6 | — | — | 6 |
| Deposits and placements from banks and non-bank financial institutions | (ii) | 656,439 | 54,861 | 13,463 | 724,763 |
| Trading financial liabilities | | — | 74 | 26 | 100 |
| Deposits from customers | | 7,416,745 | 98,532 | 60,271 | 7,575,548 |
| Debt securities issued | | 82,880 | 5,855 | 9,263 | 97,998 |
| Other liabilities | | 156,584 | 4,015 | 9,058 | 169,657 |
| **Total liabilities** | | 8,312,654 | 163,337 | 92,081 | 8,568,072 |
| **Net position on balance sheet** | | 420,398 | 84,001 | (2,852) | 501,547 |
| **Net notional amount of derivatives** | | 65,458 | (67,377) | 1,944 | 25 |
| **Overall net position** | | 485,856 | 16,624 | (908) | 501,572 |

(Expressed in millions of Renminbi unless otherwise stated)

# 58 RISK MANAGEMENT (continued)

## (2) Market risk (continued)

### *(d) Currency risk (continued)*

***Bank** (continued)*

| | Note | 31 December 2008 RMB | USD (RMB equivalent) | Others (RMB equivalent) | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and deposits with central banks | | 1,230,711 | 8,248 | 8,094 | 1,247,053 |
| Deposits and placements with banks and non-bank financial institutions | (i) | 237,213 | 20,606 | 7,580 | 265,399 |
| Loans and advances to customers | | 3,474,844 | 120,979 | 44,117 | 3,639,940 |
| Investments | | 2,087,174 | 91,219 | 15,525 | 2,193,918 |
| Other assets | | 164,580 | 4,916 | 10,762 | 180,258 |
| **Total assets** | | 7,194,522 | 245,968 | 86,078 | 7,526,568 |
| **Liabilities** | | | | | |
| Borrowings from central banks | | 6 | — | — | 6 |
| Deposits and placements from banks and non-bank financial institutions | (ii) | 433,789 | 52,891 | 15,836 | 502,516 |
| Trading financial liabilities | | 1,881 | 1,401 | 693 | 3,975 |
| Deposits from customers | | 6,199,296 | 87,769 | 55,920 | 6,342,985 |
| Debt securities issued | | 42,932 | 3,699 | 5,900 | 52,531 |
| Other liabilities | | 151,502 | 6,072 | 3,425 | 160,999 |
| **Total liabilities** | | 6,829,406 | 151,832 | 81,774 | 7,063,012 |
| **Net position on balance sheet** | | 365,116 | 94,136 | 4,304 | 463,556 |
| **Net notional amount of derivatives** | | 100,324 | (98,841) | 891 | 2,374 |
| **Overall net position** | | 465,440 | (4,705) | 5,195 | 465,930 |

Notes:

(i) Including financial assets held under resale agreements

(ii) Including financial assets sold under repurchase agreements

## 58 RISK MANAGEMENT (continued)

### (3) Liquidity risk

Liquidity risk is the risk that insufficient funds are available to meet liabilities as they fall due. It is caused by mismatches of assets and liabilities in terms of their amounts and maturity dates. In accordance with liquidity policies, the Group monitors the future cash flows to ensure that an appropriate level of highly liquid assets is maintained.

At the Group level, liquidity is managed and coordinated through the ALM. The ALM is responsible for formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

— adopting a prudent strategy and ensuring sufficient funds are available at any moment to satisfy any payment request;

— optimising the Group's asset and liability structure, diversifying and stabilising the source of funds, and reserving an appropriate proportion of highly credit-rated and liquid asset portfolio; and

— managing and utilising centrally the Bank's liquid funds.

The Group principally uses liquidity analysis and gap analysis to measure the liquidity risk. Gap analysis is used to predict the cash flow within one year. Scenario analyses are then applied to assess the impact of liquidity risk.

(Expressed in millions of Renminbi unless otherwise stated)

# 58 RISK MANAGEMENT (continued)

## (3) Liquidity risk (continued)

### (a) *Maturity analysis*

The following tables provide an analysis of the assets and liabilities of the Group and the Bank based on the remaining periods to repayment at the balance sheet date:

***Group***

| | 30 June 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Indefinite | Repayable on demand | Within one month | Between one month and three months | Between three months and one year | Between one year and five years | More than five years | Total |
| **Assets** | | | | | | | | |
| Cash and deposits with central banks | 1,114,439 | 147,913 | – | – | – | – | – | 1,262,352 |
| Deposits and placements with banks and non-bank financial institutions | 69 | 21,847 | 52,363 | 2,787 | 10,888 | – | 9 | 87,963 |
| Financial assets held under resale agreements | – | – | 328,525 | 367,837 | 172,090 | – | – | 868,452 |
| Loans and advances to customers | 31,047 | 34,707 | 168,819 | 332,844 | 1,229,504 | 1,323,419 | 1,288,812 | 4,409,152 |
| Investments | | | | | | | | |
| – Trading financial assets | 3,490 | – | 543 | 11,528 | 5,000 | 14,733 | 2,644 | 37,938 |
| – Available-for-sale financial assets | 33,391 | – | 80,026 | 191,255 | 83,903 | 116,315 | 67,275 | 572,165 |
| – Held-to-maturity investments | 3,752 | – | 6,890 | 154,105 | 230,213 | 523,812 | 299,001 | 1,217,773 |
| – Debt securities classified as receivables | – | – | – | 247,000 | 47,003 | 113,979 | 78,204 | 486,186 |
| – Investments in associates and jointly controlled entities | 1,751 | – | – | – | – | – | – | 1,751 |
| Other assets | 99,085 | 37,227 | 4,001 | 10,975 | 5,427 | 4,566 | 5,158 | 166,439 |
| **Total assets** | 1,287,024 | 241,694 | 641,167 | 1,318,331 | 1,784,028 | 2,096,824 | 1,741,103 | 9,110,171 |
| **Liabilities** | | | | | | | | |
| Borrowings from central banks | – | 6 | – | – | – | – | – | 6 |
| Deposits and placements from banks and non-bank financial institutions | – | 538,556 | 22,933 | 14,988 | 46,977 | 100,580 | – | 724,034 |
| Trading financial liabilities | – | – | – | – | – | 74 | 26 | 100 |
| Financial assets sold under repurchase agreements | – | – | 145 | 145 | 192 | – | – | 482 |
| Deposits from customers | – | 4,346,678 | 303,278 | 665,601 | 1,838,560 | 449,029 | 6,876 | 7,610,022 |
| Debt securities issued | | | | | | | | |
| — Certificates of deposit issued | – | – | 389 | 890 | 8,681 | 3,938 | – | 13,898 |
| — Subordinated bonds issued | – | – | – | – | – | – | 79,878 | 79,878 |
| — Bonds issued | – | – | – | – | – | 2,859 | – | 2,859 |
| **Other liabilities** | – | 62,290 | 27,524 | 14,450 | 38,816 | 18,062 | 11,216 | 172,358 |
| **Total liabilities** | – | 4,947,530 | 354,269 | 696,074 | 1,933,226 | 574,542 | 97,996 | 8,603,637 |
| **Long/(short) position** | 1,287,024 | (4,705,836) | 286,898 | 622,257 | (149,198) | 1,522,282 | 1,643,107 | 506,534 |
| **Notional amount of derivatives** | | | | | | | | |
| – Interest rate contracts | – | – | 4,381 | 5,836 | 15,172 | 110,806 | 44,032 | 180,227 |
| – Exchange rate contracts | – | – | 116,607 | 62,558 | 244,699 | 11,921 | 12,373 | 448,158 |
| – Equity instrument contracts | – | – | – | – | – | 821 | – | 821 |
| **Total** | – | – | 120,988 | 68,394 | 259,871 | 123,548 | 56,405 | 629,206 |

(Expressed in millions of Renminbi unless otherwise stated)

# 58 RISK MANAGEMENT (continued)

## (3) Liquidity risk (continued)

### (a) *Maturity analysis (continued)*

***Group** (continued)*

| | 31 December 2008 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Indefinite | Repayable on demand | Within one month | Between one month and three months | Between three months and one year | Between one year and five years | More than five years | Total |
| **Assets** | | | | | | | | |
| Cash and deposits with central banks | 935,156 | 312,294 | – | – | – | – | – | 1,247,450 |
| Deposits and placements with banks and non-bank financial institutions | 57 | 24,552 | 14,933 | 5,472 | 4,909 | – | 9 | 49,932 |
| Financial assets held under resale agreements | – | – | 98,569 | 97,427 | 12,552 | – | – | 208,548 |
| Loans and advances to customers | 38,258 | 38,088 | 124,660 | 263,120 | 1,119,663 | 1,071,249 | 1,028,537 | 3,683,575 |
| Investments | | | | | | | | |
| – Trading financial assets | 3,169 | – | 3,370 | 2,890 | 28,445 | 10,344 | 2,091 | 50,309 |
| – Available-for-sale financial assets | 32,695 | – | 38,885 | 120,285 | 187,419 | 112,779 | 58,775 | 550,838 |
| – Held-to-maturity investments | 4,614 | – | 9,806 | 21,674 | 136,016 | 601,250 | 268,423 | 1,041,783 |
| – Debt securities classified as receivables | – | – | – | 310 | 315,917 | 155,145 | 80,446 | 551,818 |
| – Investments in associates and jointly controlled entities | 1,728 | – | – | – | – | – | – | 1,728 |
| Other assets | 97,300 | 35,525 | 2,561 | 12,772 | 8,002 | 6,263 | 7,048 | 169,471 |
| **Total assets** | 1,112,977 | 410,459 | 292,784 | 523,950 | 1,812,923 | 1,957,030 | 1,445,329 | 7,555,452 |
| **Liabilities** | | | | | | | | |
| Borrowings from central banks | – | 6 | – | – | – | – | – | 6 |
| Deposits and placements from banks and non-bank financial institutions | – | 310,641 | 38,819 | 22,729 | 18,123 | 100,260 | – | 490,572 |
| Trading financial liabilities | – | – | 756 | 1,907 | 1,093 | 75 | 144 | 3,975 |
| Financial assets sold under repurchase agreements | – | – | 288 | 576 | – | – | – | 864 |
| Deposits from customers | – | 3,596,778 | 327,958 | 552,759 | 1,482,616 | 409,035 | 6,769 | 6,375,915 |
| Debt securities issued | | | | | | | | |
| — Certificates of deposit issued | – | – | 313 | 1,527 | 5,002 | 4,175 | – | 11,017 |
| — Subordinated bonds issued | – | – | – | – | – | – | 39,939 | 39,939 |
| — Bonds issued | – | – | – | – | – | 2,854 | – | 2,854 |
| Other liabilities | 5 | 100,950 | 4,970 | 8,775 | 25,263 | 13,636 | 9,149 | 162,748 |
| **Total liabilities** | 5 | 4,008,375 | 373,104 | 588,273 | 1,532,097 | 530,035 | 56,001 | 7,087,890 |
| **Long/(short) position** | 1,112,972 | (3,597,916) | (80,320) | (64,323) | 280,826 | 1,426,995 | 1,389,328 | 467,562 |
| **Notional amount of derivatives** | | | | | | | | |
| – Interest rate contracts | – | – | 2,130 | 4,341 | 19,023 | 112,026 | 46,175 | 183,695 |
| – Exchange rate contracts | – | – | 89,557 | 80,926 | 290,180 | 15,627 | 13,141 | 489,431 |
| – Precious metal contracts | – | – | 510 | – | – | – | – | 510 |
| – Equity instrument contracts | – | – | – | – | 28 | 778 | – | 806 |
| **Total** | – | – | 92,197 | 85,267 | 309,231 | 128,431 | 59,316 | 674,442 |

(Expressed in millions of Renminbi unless otherwise stated)

# 58 RISK MANAGEMENT (continued)

## (3) Liquidity risk (continued)

### *(a) Maturity analysis (continued)*

***Bank***

| | 30 June 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Indefinite | Repayable on demand | Within one month | Between one month and three months | Between three months and one year | Between one year and five years | More than five years | Total |
| **Assets** | | | | | | | | |
| Cash and deposits with central banks | 1,114,284 | 147,749 | – | – | – | – | – | 1,262,033 |
| Deposits and placements with banks and non-bank financial institutions | 69 | 20,290 | 52,493 | 2,777 | 10,526 | – | 9 | 86,164 |
| Financial assets held under resale agreements | – | – | 328,525 | 367,837 | 172,090 | – | – | 868,452 |
| Loans and advances to customers | 30,957 | 33,922 | 167,615 | 329,804 | 1,224,014 | 1,308,116 | 1,269,429 | 4,363,857 |
| Investments | | | | | | | | |
| – Trading financial assets | – | – | 473 | 11,151 | 3,000 | 12,925 | 1,733 | 29,282 |
| – Available-for-sale financial assets | 32,435 | – | 79,211 | 191,169 | 83,292 | 116,664 | 67,249 | 570,020 |
| – Held-to-maturity investments | 3,752 | – | 6,890 | 154,105 | 230,129 | 523,675 | 299,001 | 1,217,552 |
| – Debt securities classified as receivables | – | – | – | 247,000 | 47,003 | 113,979 | 78,204 | 486,186 |
| – Investments in subsidiaries | 5,407 | – | – | – | – | – | – | 5,407 |
| Other assets | 115,824 | 36,118 | 3,655 | 10,823 | 5,165 | 3,955 | 5,126 | 180,666 |
| **Total assets** | 1,302,728 | 238,079 | 638,862 | 1,314,666 | 1,775,219 | 2,079,314 | 1,720,751 | 9,069,619 |
| **Liabilities** | | | | | | | | |
| Borrowings from central banks | – | 6 | – | – | – | – | – | 6 |
| Deposits and placements from banks and non-bank financial institutions | – | 540,713 | 23,272 | 13,461 | 46,255 | 100,580 | – | 724,281 |
| Trading financial liabilities | – | – | – | – | – | 74 | 26 | 100 |
| Financial assets sold under repurchase agreements | – | – | 145 | 145 | 192 | – | – | 482 |
| Deposits from customers | – | 4,336,372 | 289,390 | 658,172 | 1,836,482 | 448,267 | 6,865 | 7,575,548 |
| Debt securities issued | | | | | | | | |
| — Certificates of deposit issued | – | – | 389 | 890 | 9,914 | 3,938 | – | 15,131 |
| — Subordinated bonds issued | – | – | – | – | – | – | 79,878 | 79,878 |
| — Bonds issued | – | – | – | – | – | 2,989 | – | 2,989 |
| Other liabilities | – | 60,139 | 27,335 | 14,400 | 38,627 | 17,944 | 11,212 | 169,657 |
| **Total liabilities** | – | 4,937,230 | 340,531 | 687,068 | 1,931,470 | 573,792 | 97,981 | 8,568,072 |
| **Long/(short) position** | 1,302,728 | (4,699,151) | 298,331 | 627,598 | (156,251) | 1,505,522 | 1,622,770 | 501,547 |
| **Notional amount of derivatives** | | | | | | | | |
| – Interest rate contracts | – | – | 4,257 | 5,750 | 15,161 | 110,000 | 43,164 | 178,332 |
| – Exchange rate contracts | – | – | 98,175 | 58,914 | 224,818 | 11,349 | 12,373 | 405,629 |
| – Equity instrument contracts | – | – | – | – | – | 34 | – | 34 |
| **Total** | – | – | 102,432 | 64,664 | 239,979 | 121,383 | 55,537 | 583,995 |

(Expressed in millions of Renminbi unless otherwise stated)

# 58 RISK MANAGEMENT (continued)

## (3) Liquidity risk (continued)

### *(a) Maturity analysis (continued)*

***Bank** (continued)*

| | 31 December 2008 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Indefinite | Repayable on demand | Within one month | Between one month and three months | Between three months and one year | Between one year and five years | More than five years | Total |
| **Assets** | | | | | | | | |
| Cash and deposits with central banks | 935,019 | 312,034 | – | – | – | – | – | 1,247,053 |
| Deposits and placements with banks and non-bank financial institutions | 57 | 22,075 | 15,589 | 13,297 | 5,824 | – | 9 | 56,851 |
| Financial assets held under resale agreements | – | – | 98,569 | 97,427 | 12,552 | – | – | 208,548 |
| Loans and advances to customers | 38,241 | 37,015 | 121,778 | 259,791 | 1,114,335 | 1,058,247 | 1,010,533 | 3,639,940 |
| Investments | | | | | | | | |
| – Trading financial assets | – | – | 3,172 | 2,890 | 26,950 | 9,446 | 2,033 | 44,491 |
| – Available-for-sale financial assets | 32,343 | – | 39,237 | 120,771 | 187,298 | 112,762 | 58,745 | 551,156 |
| – Held-to-maturity investments | 4,614 | – | 9,806 | 21,674 | 136,016 | 601,250 | 268,423 | 1,041,783 |
| – Debt securities classified as receivables | – | – | – | 310 | 315,917 | 155,145 | 80,446 | 551,818 |
| – Investments in subsidiaries | 4,670 | – | – | – | – | – | – | 4,670 |
| Other assets | 109,511 | 35,142 | 2,308 | 12,186 | 7,889 | 6,174 | 7,048 | 180,258 |
| **Total assets** | 1,124,455 | 406,266 | 290,459 | 528,346 | 1,806,781 | 1,943,024 | 1,427,237 | 7,526,568 |
| **Liabilities** | | | | | | | | |
| Borrowings from central banks | – | 6 | – | – | – | – | – | 6 |
| Deposits and placements from banks and non-bank financial institutions | – | 310,941 | 41,524 | 30,454 | 18,473 | 100,260 | – | 501,652 |
| Trading financial liabilities | – | – | 756 | 1,907 | 1,093 | 75 | 144 | 3,975 |
| Financial assets sold under repurchase agreements | – | – | 288 | 576 | – | – | – | 864 |
| Deposits from customers | – | 3,591,991 | 310,423 | 542,857 | 1,482,499 | 408,456 | 6,759 | 6,342,985 |
| Debt securities issued | | | | | | | | |
| – Certificates of deposit issued | – | – | 309 | 343 | 4,869 | 4,087 | – | 9,608 |
| – Subordinated bonds issued | – | – | – | – | – | – | 39,939 | 39,939 |
| – Bonds issued | – | – | – | – | – | 2,984 | – | 2,984 |
| Other liabilities | – | 99,794 | 4,621 | 8,766 | 25,104 | 13,570 | 9,144 | 160,999 |
| **Total liabilities** | – | 4,002,732 | 357,921 | 584,903 | 1,532,038 | 529,432 | 55,986 | 7,063,012 |
| **Long/(short) position** | 1,124,455 | (3,596,466) | (67,462) | (56,557) | 274,743 | 1,413,592 | 1,371,251 | 463,556 |
| **Notional amount of derivatives** | | | | | | | | |
| – Interest rate contracts | – | – | 2,130 | 4,341 | 18,826 | 111,599 | 46,141 | 183,037 |
| – Exchange rate contracts | – | – | 78,561 | 79,658 | 285,689 | 15,627 | 13,141 | 472,676 |
| – Precious metal contracts | – | – | 510 | – | – | – | – | 510 |
| – Equity instrument contracts | – | – | – | – | – | 34 | – | 34 |
| **Total** | – | – | 81,201 | 83,999 | 304,515 | 127,260 | 59,282 | 656,257 |

(Expressed in millions of Renminbi unless otherwise stated)

## 58 RISK MANAGEMENT (continued)

### (3) Liquidity risk (continued)

#### (b) *Contractual undiscounted cash flow*

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and off balance sheet loan commitments and credit card commitments of the Group and the Bank at the balance sheet date. The Group's and the Bank's expected cash flows on these instruments may vary significantly from this analysis.

***Group***

| | 30 June 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Gross cash outflow | Repayable on demand | Within one month | Between one month and three months | Between three months and one year | Between one year and five years | More than five years |
| **Non-derivative financial liabilities** | | | | | | | | |
| Borrowings from central banks | 6 | 6 | 6 | – | – | – | – | – |
| Deposits and placements from banks and non-bank financial institutions | 724,034 | 756,714 | 542,887 | 27,388 | 16,059 | 47,985 | 122,395 | – |
| Trading financial liabilities | 100 | 121 | – | – | 2 | 6 | 86 | 27 |
| Financial assets sold under repurchase agreements | 482 | 483 | – | 145 | 145 | 193 | – | – |
| Deposits from customers | 7,610,022 | 7,746,091 | 4,346,926 | 305,902 | 682,113 | 1,888,583 | 515,094 | 7,473 |
| Debt securities issued | | | | | | | | |
| – Certificates of deposit issued | 13,898 | 14,196 | – | 437 | 948 | 8,819 | 3,992 | – |
| – Subordinated bonds issued | 79,878 | 122,980 | – | – | 1,190 | 2,278 | 17,628 | 101,884 |
| – Bonds issued | 2,859 | 3,008 | – | – | 46 | 46 | 2,916 | – |
| Other financial liabilities | 33,783 | 33,783 | 28,577 | 1,143 | 703 | 798 | 2,041 | 521 |
| Total | 8,465,062 | 8,677,382 | 4,918,396 | 335,015 | 701,206 | 1,948,708 | 664,152 | 109,905 |
| Off balance sheet loan commitments and credit card commitments | – | 632,092 | 527,630 | 8,628 | 15,002 | 38,911 | 34,659 | 7,262 |

| | 31 December 2008 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Gross cash outflow | Repayable on demand | Within one month | Between one month and three months | Between three months and one year | Between one year and five years | More than five years |
| **Non-derivative financial liabilities** | | | | | | | | |
| Borrowings from central banks | 6 | 6 | 6 | – | – | – | – | – |
| Deposits and placements from banks and non-bank financial institutions | 490,572 | 512,889 | 310,652 | 38,989 | 22,822 | 18,650 | 121,776 | – |
| Trading financial liabilities | 3,975 | 4,077 | – | 762 | 1,922 | 1,110 | 126 | 157 |
| Financial assets sold under repurchase agreements | 864 | 871 | – | 291 | 580 | – | – | – |
| Deposits from customers | 6,375,915 | 6,521,465 | 3,597,683 | 333,137 | 568,589 | 1,539,379 | 474,652 | 8,025 |
| Debt securities issued | | | | | | | | |
| – Certificates of deposit issued | 11,017 | 11,441 | – | 352 | 1,573 | 5,230 | 4,286 | – |
| – Subordinated bonds issued | 39,939 | 57,098 | – | – | – | 2,042 | 12,045 | 43,011 |
| – Bonds issued | 2,854 | 3,041 | – | – | – | – | 3,041 | – |
| Other financial liabilities | 25,716 | 25,716 | 22,194 | 731 | 59 | 2,143 | 50 | 539 |
| Total | 6,950,858 | 7,136,604 | 3,930,535 | 374,262 | 595,545 | 1,568,554 | 615,976 | 51,732 |
| Off balance sheet loan commitments and credit card commitments | – | 482,559 | 334,442 | 24,669 | 26,703 | 47,597 | 21,831 | 27,317 |

(Expressed in millions of Renminbi unless otherwise stated)

# 58 RISK MANAGEMENT (continued)

## (3) Liquidity risk (continued)

### (b) *Contractual undiscounted cash flow (continued)*

***Bank***

| | 30 June 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Gross cash outflow | Repayable on demand | Within one month | Between one month and three months | Between three months and one year | Between one year and five years | More than five years |
| **Non-derivative financial liabilities** | | | | | | | | |
| Borrowings from central banks | 6 | 6 | 6 | – | – | – | – | – |
| Deposits and placements from banks and non-bank financial institutions | 724,281 | 746,905 | 540,730 | 23,315 | 13,534 | 46,931 | 122,395 | – |
| Trading financial liabilities | 100 | 121 | – | – | 2 | 6 | 86 | 27 |
| Financial assets sold under repurchase agreements | 482 | 483 | – | 145 | 145 | 193 | – | – |
| Deposits from customers | 7,575,548 | 7,711,575 | 4,336,621 | 291,993 | 674,674 | 1,886,502 | 514,323 | 7,462 |
| Debt securities issued | | | | | | | | |
| — Certificates of deposit issued | 15,131 | 15,432 | – | 437 | 948 | 10,055 | 3,992 | – |
| — Subordinated bonds issued | 79,878 | 122,980 | – | – | 1,190 | 2,278 | 17,628 | 101,884 |
| — Bonds issued | 2,989 | 3,147 | – | – | 49 | 49 | 3,049 | – |
| Other financial liabilities | 31,803 | 31,803 | 26,765 | 1,130 | 682 | 767 | 1,938 | 521 |
| Total | 8,430,218 | 8,632,452 | 4,904,122 | 317,020 | 691,224 | 1,946,781 | 663,411 | 109,894 |
| Off balance sheet loan commitments and credit card commitments | – | 629,173 | 527,598 | 8,368 | 14,511 | 37,150 | 34,284 | 7,262 |

(Expressed in millions of Renminbi unless otherwise stated)

## 58 RISK MANAGEMENT (continued)

### (3) Liquidity risk (continued)

*(b) Contractual undiscounted cash flow (continued)*

***Bank** (continued)*

| | 31 December 2008 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Gross cash outflow | Repayable on demand | Within one month | Between one month and three months | Between three months and one year | Between one year and five years | More than five years |
| **Non-derivative financial liabilities** | | | | | | | | |
| Borrowings from central banks | 6 | 6 | 6 | – | – | – | – | – |
| Deposits and placements from banks and non-bank financial institutions | 501,652 | 524,108 | 310,952 | 41,724 | 30,631 | 19,025 | 121,776 | – |
| Trading financial liabilities | 3,975 | 4,077 | – | 762 | 1,922 | 1,110 | 126 | 157 |
| Financial assets sold under repurchase agreements | 864 | 871 | – | 291 | 580 | – | – | – |
| Deposits from customers | 6,342,985 | 6,488,301 | 3,592,896 | 315,576 | 558,633 | 1,539,215 | 473,968 | 8,013 |
| Debt securities issued | | | | | | | | |
| — Certificates of deposit issued | 9,608 | 10,020 | – | 347 | 383 | 5,094 | 4,196 | – |
| — Subordinated bonds issued | 39,939 | 57,098 | – | – | – | 2,042 | 12,045 | 43,011 |
| — Bonds issued | 2,984 | 3,178 | – | – | – | – | 3,178 | – |
| Other financial liabilities | 24,719 | 24,719 | 21,322 | 731 | 53 | 2,074 | – | 539 |
| Total | 6,926,732 | 7,112,378 | 3,925,176 | 359,431 | 592,202 | 1,568,560 | 615,289 | 51,720 |
| Off balance sheet loan commitments and credit card commitments | – | 478,622 | 334,442 | 24,343 | 26,051 | 44,825 | 21,644 | 27,317 |

### (4) Operational risk

Operational risk represents the risk of loss due to deficient and flawed internal processes, personnel and information system, or other external events.

The Group manages this risk through a control-based environment by establishing a framework of policies and procedures in order to identify, assess, report, manage and control risks. The framework covers all business functions ranging from finance, accounting, credit, settlement, savings, treasury, intermediary business, application and management of information system, assets safeguard and legal compliance. This has allowed the Group to comprehensively identify and address the operational risk inherent in all key products, activities, processes and systems. Major operational risk management measures adopted by the Group include:

— improved the self-assessment of operational risk and internal control, identified and assessed key risk area and optimised measures of internal control; boosted business continuity management, set up emergency recovery plan for major production systems, conducted contingent drills and enhanced the bank wide emergency recovery ability;

— started a project for operational risk management of information systems; built up a standard platform for operational risk management throughout the Bank to achieve self-evaluation of operational risk and internal controls, and enhanced the interaction and application of the management tools of historical loss database and key risk indicators so as to support the operational risk management and decisions-making;

## 58 RISK MANAGEMENT (continued)

### (4) Operational risk (continued)

— established an internal reporting system for any staff misconduct which may adversely affect the Group's business. Under the system, statistics for staff misconduct are regularly reported to the Head Office, while significant incidents are required to be reported to the Head Office within 24 hours after such incidents are uncovered;

— amended and improved the internal control system on a continuous basis; enhanced staff training; implemented an accountability system to ensure compliance with policies and processes; as well as established relevant policies and procedures, in which the management is held responsible for any staff misconduct;

— strengthened business operational checks and balance between departments and different positions, as well as the centralised appointment and rotation of key personnel;

— developed a systematic authorisation management and business operational policies;

— backed-up data in the Group's key data processing system to minimise operational risks from an IT malfunction, and set up a computer disaster recovery centre to automatically back-up operational data;

— set up an anti-money laundering team within the Legal and Compliance Department to coordinate and monitor anti-money laundering activities, ensure the regulatory requirements of anti-money laundering are properly satisfied by verifying clients' identities, preserving clients' identity documents and transactions records, reporting money laundering transactions, suspicious transactions and transactions which potentially related to financing criminal activities, as well as conducting anti-money laundering training and publicity activities;

— enhanced the controls over operational risks arising from essential segments of business units; examined and monitored major risks affecting business units; and strengthened the internal controls and risk management for business units; and

— enhanced information system checks and security enforcement; examined and assessed information security risk; tested and evaluated graded protection security technology for key information systems; and conducted contingent drills for potential information system risk to ensure normal operation of network and information systems.

(Expressed in millions of Renminbi unless otherwise stated)

## 58 RISK MANAGEMENT (continued)

### (5) Fair value

#### *(a) Financial assets*

The Group's financial assets mainly include cash and deposits with central banks, deposits and placements with banks and non-bank financial institutions, trading financial assets, financial assets held under resale agreements, loans and advances to customers, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

*Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements*

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate the fair values.

*Loans and advances to customers*

Majority of the loans and advances to customers are repriced at least annually to the market rate. Accordingly, their carrying values approximate the fair values.

*Investments*

Available-for-sale and trading financial assets are stated at fair value in the financial statements. The following table shows the carrying values and the fair values of the debt securities classified as receivables and held-to-maturity investments which are not presented on the balance sheet at their fair values.

***Group***

| | **Carrying value** | | **Fair value** | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Debt securities classified as receivables | **486,186** | 551,818 | **490,826** | 560,096 |
| Held-to-maturity investments | **1,217,773** | 1,041,783 | **1,245,097** | 1,087,483 |
| Total | **1,703,959** | 1,593,601 | **1,735,923** | 1,647,579 |

***Bank***

| | **Carrying value** | | **Fair value** | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Debt securities classified as receivables | **486,186** | 551,818 | **490,826** | 560,096 |
| Held-to-maturity investments | **1,217,552** | 1,041,783 | **1,244,878** | 1,087,483 |
| Total | **1,703,738** | 1,593,601 | **1,735,704** | 1,647,579 |

(Expressed in millions of Renminbi unless otherwise stated)

## 58 RISK MANAGEMENT (continued)

### (5) Fair value (continued)

#### *(b) Financial liabilities*

The Group's financial liabilities mainly include borrowings from central banks, deposits and placements from banks and non-bank financial institutions, trading financial liabilities, financial assets sold under repurchase agreements, deposits from customers, and debt securities issued. The carrying values of financial liabilities approximated their fair values at the balance sheet date, except for the subordinated bonds issued.

The carrying value and fair value of subordinated bonds issued of the Group and the Bank are presented as follows:

| | Carrying value | | Fair value | |
|---|---|---|---|---|
| | **30 June 2009** | 31 December 2008 | **30 June 2009** | 31 December 2008 |
| Subordinated bonds issued | **79,878** | 39,939 | **78,909** | 40,751 |

### (6) Capital management

The Group's capital management comprises the management of the capital adequacy ratio, capital financing, and economic capital, of which the prime focus is capital adequacy ratio management. The Group calculates capital adequacy ratio in accordance with the guidelines issued by the CBRC. The capital of the Group is analysed into core capital and supplementary capital.

The CBRC requires that the capital adequacy ratio and core capital adequacy ratio for commercial banks shall not fall below 8% and 4% respectively. For commercial banks, supplementary capital shall not exceed 100% of core capital while long-term subordinated liabilities included in the supplementary capital should not exceed 50% of the core capital. When total positions of trading accounts exceed 10% of the on- and off- balance sheet total assets, or RMB8.5 billion, commercial banks must provide for market risk capital. At present, the Group is fully compliant with legal and regulatory requirements.

Capital adequacy ratio management is a core issue of capital management. The capital adequacy ratio reflects the Group's quality of operations and risk management. The Group's capital adequacy ratio management objectives are to meet the legal and regulatory requirements, and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading global banks and the Group's operating situations.

The Group predicts, plans, and manages the capital adequacy ratio by using scenario models and stress tests based on its strategic development plans, business expansion needs, and risk exposure trends.

*Capital allocation*

Maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular businesses or activities. Account is also taken of synergies with other businesses and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the board of directors.

(Expressed in millions of Renminbi unless otherwise stated)

## 58 RISK MANAGEMENT (continued)

### (6) Capital management (continued)

*Capital allocation (continued)*

The amount of capital allocated to each business or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles. The process of allocating capital to specific businesses and activities is undertaken by the ALM.

The Group's consolidated regulatory capital positions calculated in accordance with the guidance issued by the CBRC as at 30 June 2009 and 31 December 2008 are as follows:

| | Note | **30 June 2009** | 31 December 2008 |
|---|---|---|---|
| Core capital adequacy ratio | (a) | **9.30%** | 10.17% |
| Capital adequacy ratio | (b) | **11.97%** | 12.16% |
| *Components of capital base* | | | |
| Core capital: | | | |
| — Share capital | | **233,689** | 233,689 |
| — Capital reserve, investment revaluation reserve and exchange reserve | (d) | **83,082** | 83,202 |
| — Surplus reserve and general reserve | | **73,580** | 73,550 |
| — Retained earnings | (c), (d) | **69,764** | 39,316 |
| — Minority interests | | **1,758** | 1,596 |
| | | **461,873** | 431,353 |
| Supplementary capital: | | | |
| — General provision for doubtful debts | | **45,461** | 38,110 |
| — Positive changes in fair value of available-for-sale financial assets and trading financial instruments | | **10,596** | 8,684 |
| — Long-term subordinated bonds | | **80,000** | 40,000 |
| | | **136,057** | 86,794 |
| Total capital base before deductions | | **597,930** | 518,147 |
| Deductions: | | | |
| — Goodwill | | **(1,525)** | (1,527) |
| — Unconsolidated equity investments | | **(7,251)** | (5,682) |
| — Others | (e) | **(3,664)** | (522) |
| Total capital base after deductions | | **585,490** | 510,416 |
| Risk-weighted assets | (f) | **4,889,313** | 4,196,493 |

## 58 RISK MANAGEMENT (continued)

### (6) Capital management (continued)

*Capital allocation (continued)*

(a) 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.

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

(c) The dividend proposed after the balance sheet date has been deducted from retained earnings.

(d) 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.

(e) Others mainly represent investments in those asset backed securities specified by CBRC which required reduction.

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

## 59 EVENTS AFTER THE BALANCE SHEET DATE

### (1) Completion of the capital injection into a trust company

On 22 July 2009, the Bank injected RMB3,409 million capitals in Hefei Xingtai Trust Corporation Limited ("Xingtai Trust"). Tianjian Sinorama (Beijing) Co., Ltd., Certified Public Accountant, verified the injected share capital and issued the capital verification report on 23 July 2009.

On 28 and 29 July 2009, Xintai Trust obtained the financial service certificate and the business license; public announcement was then made in August 2009.

After the capital injection, Xintai Trust has been renamed to Jianxin Trust Co., Ltd. ("Jianxin Trust"). The registered capital increased from RMB504 million to RMB1,527 million. The Bank, Heifei Xingtai Holding Group Corporation Limited, and Hefei Municipal State-owned Assets Holding Corporation Limited hold 67%, 27.5% and 5.5% equity interests of Jianxin Trust respectively.

### (2) Redemption of subordinated bonds

On 1 August 2009, the Bank exercised the options to redeem subordinated bonds at par value.

The aggregate redemption of principal was 15,000 million, includes: (i) the subordinated fixed rate bonds issued in August 2004 with the interest rate 4.87% per annum, the redemption of principal was RMB11,140 million; and (ii) the subordinated floating rate bonds issued in August 2004, with the interest rate per annum reset annually based on the PBC one-year fixed deposit rate plus an interest margin of 2%, the redemption of principal was RMB3,860 million.

## 59 EVENTS AFTER THE BALANCE SHEET DATE (continued)

### (3) Issuance of subordinated bonds

Pursuant to the approvals from CBRC and the PBC, the Bank issued subordinated bonds in the national interbank bond market on 11 August 2009.

The aggregate amount of the issuance was RMB20,000 million, includes: (i) RMB10,000 million of ten years fixed rate subordinated bonds. The coupon rate for the first five years is 3.32% and the Bank has an option to redeem the bonds at the end of the first five years. If the Bank does not exercise the option, the coupon rate for the last five years will increase to 6.32%; and (ii) RMB10,000 million of fifteen years fixed rate subordinated bonds. The coupon rate for the first ten years is 4.04% and the Bank has an option to redeem the bonds at the end of the first ten years. If the Bank does not exercise the option, the coupon rate for the last five years will increase to 7.04%.

The funds raised from the issuance of the subordinated bonds have been transferred to the Bank's account in August 2009 to replenish the supplementary capital of the Bank in accordance with the applicable laws and the approvals from the regulatory authorities.

### (4) Acquisition of AIG Finance (Hong Kong) Limited

On 10 August 2009, CCB Asia, one of the Group's subsidiaries, reached a final agreement with American International Group to acquire all of the outstanding shares of AIG Finance (Hong Kong) Limited ("AIGF") for a consideration of US$70 million, subject to typical closing adjustments. The completion of this transaction is subject to the approval of the regulatory authorities, after which AIGF will become a wholly-owned subsidiary of CCB Asia.

## 60 COMPARATIVE FIGURES

As a result of following up the changes of IFRS mentioned in Note 2(4), certain comparative figures have been adjusted to conform with changes in disclosures in the interim financial statements.

## 61 IMMEDIATE AND ULTIMATE PARENT

As stated in Note 1, the immediate and ultimate parent of the Group is Huijin and CIC respectively.

## 62 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of the interim financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the six months ended 30 June 2009 and which have not been adopted in the interim financial statements.

- Amendments to IFRS 7, *Financial instruments: Disclosures* — improving disclosures about financial instruments;
- IFRS 3 (revised), *Business combinations*;
- Amendments to IAS 27, *Consolidated and separate financial statements*;
- Amendments to IAS 39, *Financial instruments: Recognition and measurement — Eligible hedged items*;
- IFRIC 17, *Distribution of non-cash assets to owners*;
- Improvements to IFRSs 2009.

The Group is in the process of making assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

(Expressed in millions of Renminbi unless otherwise stated)

## 1 DIFFERENCE BETWEEN THE FINANCIAL STATEMENTS PREPARED UNDER IFRS AND THOSE PREPARED IN ACCORDANCE WITH PRC GAAP

China Construction Bank Corporation (the "Bank") prepares consolidated financial statements, which include the financial statements of the Bank and its subsidiaries (collectively the "Group"), in accordance with International Financial Reporting Standards ("IFRS") and its interpretations promulgated by the International Accounting Standards Board and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

As a financial institution incorporated in the People's Republic of China (the "PRC") and listed in the Shanghai Stock Exchange, the Group also prepares its consolidated financial statements for the six months ended 30 June 2009 in accordance with the Accounting Standards for Business Enterprises and other relevant regulations issued by the regulatory bodies of the PRC (collectively "PRC GAAP").

There is no difference in the net profit for the six months ended 30 June 2009 or total equity as at 30 June 2009 between the Group's consolidated financial statements prepared under IFRS and those prepared under PRC GAAP respectively.

## 2 LIQUIDITY RATIOS

***Group***

| | **30 June 2009** | **Average for the six months ended 30 June 2009** | 31 December 2008 | Average for the year ended 31 December 2008 |
|---|---|---|---|---|
| RMB current assets to RMB current liabilities | **47.43%** | **50.08%** | 52.74% | 47.45% |
| Foreign currency current assets to foreign currency current liabilities | **92.36%** | **101.10%** | 109.84% | 111.27% |

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

The Hong Kong Banking (Disclosure) 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.

(Expressed in millions of Renminbi unless otherwise stated)

## 3 CURRENCY CONCENTRATIONS

***Group***

| | **30 June 2009** | | | |
|---|---|---|---|---|
| | **USD (RMB equivalent)** | **HKD (RMB equivalent)** | **Others (RMB equivalent)** | **Total** |
| Spot assets | **260,289** | **88,590** | **45,334** | **394,213** |
| Spot liabilities | **(189,589)** | **(82,302)** | **(39,798)** | **(311,689)** |
| Forward purchases | **172,878** | **17,759** | **51,894** | **242,531** |
| Forward sales | **(241,060)** | **(8,854)** | **(57,836)** | **(307,750)** |
| Net long/(short) position | **2,518** | **15,193** | **(406)** | **17,305** |
| Net structural position | **19** | **110** | **153** | **282** |

| | 31 December 2008 | | | |
|---|---|---|---|---|
| | USD (RMB equivalent) | HKD (RMB equivalent) | Others (RMB equivalent) | Total |
| 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 (short)/long position | (3,517) | 17,677 | 1,601 | 15,761 |
| Net structural position | — | 169 | 136 | 305 |

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.

(Expressed in millions of Renminbi unless otherwise stated)

## 4 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 to customers, 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.

***Group***

| | **30 June 2009** | | | |
|---|---|---|---|---|
| | **Banks and non-bank financial institutions** | **Public sector entities** | **Others** | **Total** |
| Asia Pacific excluding Mainland China | **16,764** | **1,977** | **54,845** | **73,586** |
| — of which attributed to Hong Kong | **4,969** | **909** | **35,864** | **41,742** |
| Europe | **8,649** | **—** | **8,214** | **16,863** |
| North and South America | **69,101** | **6,155** | **20,434** | **95,690** |
| | **94,514** | **8,132** | **83,493** | **186,139** |

| | 31 December 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 |

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.

(Expressed in millions of Renminbi unless otherwise stated)

## 5 OVERDUE LOANS AND ADVANCES TO CUSTOMERS BY GEOGRAPHICAL SECTOR

***Group***

| | **30 June 2009** | 31 December 2008 |
|---|---|---|
| Yangtze River Delta | **13,410** | 7,353 |
| Pearl River Delta | **8,769** | 7,604 |
| Bohai Rim | **14,430** | 15,063 |
| Central | **11,483** | 11,192 |
| Western | **8,344** | 10,495 |
| Northeastern | **5,406** | 5,390 |
| Head office | **1,453** | 1,569 |
| Overseas | **582** | 374 |
| Total | **63,877** | 59,040 |

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 30 June 2009, the amounts of RMB53,925 million (as at 31 December 2008: RMB48,922 million) and RMB9,952 million (as at 31 December 2008: RMB10,118 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 RMB8,749 million and RMB45,176 million respectively (as at 31 December 2008: RMB8,863 million and RMB40,059 million respectively). The fair value of collateral held against these individually assessed loans and advances was RMB9,019 million (as at 31 December 2008: RMB9,377 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 RMB43,854 million (as at 31 December 2008: RMB39,617 million).

## 6 NON-BANK MAINLAND CHINA EXPOSURE

The Bank is a commercial bank incorporated in Mainland China with its banking business primarily conducted in Mainland China. As at 30 June 2009, substantial amounts of the Bank's exposures arose from businesses with Mainland China entities or individuals. Analyses of various types of exposures by counterparty have been disclosed in the respective notes to the financial statements.