中国建设银行
China Construction Bank

China Construction Bank Corporation
(A joint stock limited company incorporated in the People's Republic of China with limited liability)
Stock Code: 939

Half-Year Report

08

Financial Highlights

Operating income (In millions of RMB)

135,736 (Six months ended 30 June 2008)

99,773 *(Six months ended 30 June 2007)*

36.04%

Profit before tax (In millions of RMB)

75,655 (Six months ended 30 June 2008)

50,542 *(Six months ended 30 June 2007)*

49.69%

Net profit (In millions of RMB)

58,692 (Six months ended 30 June 2008)

34,255 *(Six months ended 30 June 2007)*

71.34%

Annualised return on average assets (%)

1.72 (Six months ended 30 June 2008)

1.18 *(Six months ended 30 June 2007)*

0.54

Annualised return on average equity (%)

26.36 (Six months ended 30 June 2008)

19.80 *(Six months ended 30 June 2007)*

6.56

Net interest margin (%)

3.29 (Six months ended 30 June 2008)

3.11 *(Six months ended 30 June 2007)*

0.18

Net fee and commission income to operating income (%)

14.86 (Six months ended 30 June 2008)

12.69 *(Six months ended 30 June 2007)*

2.17

Non-performing loan ratio (%)

2.21 (30 June 2008)

2.60 *(31 December 2007)*

0.39

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
"CBRC"	China Banking Regulatory Commission
"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"	China SAFE Investments Limited
"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"	The Accounting Standards for Business Enterprises promulgated by the MOF on 15 February 2006 and other relevant requirements
"RMB"	Renminbi
"State Grid"	State Grid Corporation of China
"Temasek"	Temasek Holdings (Private) Limited
"Yangtze Power"	China Yangtze Power Co., Limited

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 Luo Zhefu
Secretary to the Board	Chen Caihong Contact Address: No. 25, Finance Street, Xicheng District, Beijing Telephone: 86-10-66215533 Facsimile: 86-10-66218888 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 A-share information disclosure	*China Securities Journal, Shanghai Securities News* and *Financial News*
Website of the Shanghai Stock Exchange for uploading the half-year report prepared in accordance with PRC GAAP	www.sse.com.cn
Website of the Hong Kong Stock Exchange for uploading the half-year report prepared in accordance with IFRS	www.hkex.com.hk
Venue where copies of this half-year report are kept	Office of the board of directors of the Bank
Listing stock exchanges, stock abbreviations and stock codes	A-share: Shanghai Stock Exchange Stock abbreviation: 建設銀行 Stock code: 601939 H-share: The Stock Exchange of Hong Kong Limited Stock abbreviation: CCB Stock code: 939

Date and place of first incorporation	17 September 2004 State Administration for Industry and 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 Address: 8/F, Office Tower E2, Oriental Plaza, Dongcheng District, Beijing KPMG Address: 8/F, Prince's Building, 10 Chater Road, Central, Hong Kong
Legal advisor as to PRC laws	Beijing Commerce & Finance Law Offices Address: 6/F, NCI Tower, A12 Jianguomenwai Avenue, Beijing
Legal advisor as to Hong Kong laws	Freshfields Bruckhaus Deringer Address: 11/F, Two Exchange Square, Central, Hong Kong
A-share registrar	China Securities Depository and Clearing Corporation Limited, Shanghai Branch Address: 36/F, China Insurance Building, 166 East Lujiazui Road, Pudong New District, Shanghai
H-share registrar	Computershare Hong Kong Investor Services Limited 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 2008**	Six months ended 30 June 2007	Change (%)
Current period			
Operating income	**135,736**	99,773	36.04
Profit before tax	**75,655**	50,542	49.69
Net profit	**58,692**	34,255	71.34
Net profit attributable to shareholders of the Bank	**58,667**	34,221	71.44
Per share (In RMB)			
Basic and diluted earnings per share	**0.25**	0.15	66.67
Profitability indicators (%)			Change +/(–)
Annualised return on average assets[1]	**1.72**	1.18	0.54
Annualised return on average equity[2]	**26.36**	19.80	6.56
Net interest spread	**3.16**	3.01	0.15
Net interest margin	**3.29**	3.11	0.18
Net fee and commission income to operating income	**14.86**	12.69	2.17
Cost-to-income ratio	**34.03**	37.36	(3.33)
Loan-to-deposit ratio	**61.19**	62.89	(1.70)

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

2 Calculated by dividing net profit attributable to shareholders of the Bank by the monthly average of total equity attributable to shareholders of the Bank for the period and then multiplying two.

(Expressed in millions of RMB unless otherwise stated)	30 June 2008	31 December 2007	Change (%)
At period-end			
Net loans and advances to customers	**3,445,965**	3,183,229	8.25
Total assets	**7,057,706**	6,598,177	6.96
Deposits from customers	**5,781,573**	5,329,507	8.48
Total liabilities	**6,602,308**	6,175,896	6.90
Total equity attributable to shareholders of the Bank	**454,030**	420,977	7.85
Issued and paid-up capital	**233,689**	233,689	—
Per share (In RMB)			
Net assets per share	**1.95**	1.81	7.73
Capital adequacy indicators (%)			Change +/(–)
Core capital adequacy ratio[1]	**10.08**	10.37	(0.29)
Capital adequacy ratio[1]	**12.06**	12.58	(0.52)
Total equity to total assets	**6.45**	6.40	0.05
Asset quality indicators (%)			
Non-performing loan ratio	**2.21**	2.60	(0.39)
Allowances to non-performing loans	**117.23**	104.41	12.82
Allowances to total loans	**2.59**	2.72	(0.13)

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

Chairman's Statement

Dear shareholders,

During the first half of 2008, against the backdrop of a complex economic environment at home and abroad, we stepped up business transformation, fine-tuned resource planning, and implemented strategic transformation with a view of scientific development in order to deliver sustainable value creation. And our operating results continued to improve with a record high profit.

The Bank continued to strengthen its customer-focused corporate culture, and improve its service channels and customer service capabilities by optimising its business processes and pushing forward branch transformation. Strategic transformation progressed smoothly as reflected by continued improvement in customer and income structures, rapid growth of fee and commission income, and steady development of comprehensive operations. Furthermore, the Bank has aligned risk control with its business development by improving internal control and refining its risk management and internal audit system. We also launched a number of collaborative, experience sharing and training programmes as part of deepened cooperation with our strategic partners, which proved to be very effective. Indeed, the Bank has successfully achieved its philosophy of "developing employee excellence and enhancing business performance" by earnestly gathering and retaining talented people, introducing a wide career development platform for its employees.

The Bank continued to lead in terms of overall profitability and asset quality. For the first half of 2008, the Group recorded a net profit of RMB58,692 million, representing an increase of 71.34%. Annualised return on average assets was 1.72%, and annualised return on average equity was 26.36%, with an increase of 0.54 percentage points and 6.56 percentage points respectively over the same period last year. Earnings per share for the period were RMB0.25. Assets reached over RMB7 trillion, and asset quality improved steadily as evidenced by declining non-performing loans in both percentage and amount.

Thanks to support from the business and wider communities, the Bank received a number of awards during the first half of 2008. The Bank ranked 18th in *The Banker's* Top 500 Financial Brands; 62nd in *Forbes*'s Global 2000 leading public companies; 20th in the *Financial Times*'s Global 500 in terms of market capitalisation; and 171st in *Fortune*'s Global 500, 59 places higher than in last year. Awarded "Excellence in Real Estate Investment" by *Euromoney* in UK and "Best Retailing Bank in China" by *Capital* magazine in Hong Kong, the Bank also received "Best Business Card", "Best Co-brand Card" and "Best Product Design" from MasterCard Worldwide as well as "Best Custodian Bank in China" from *The Asset* magazine in Hong Kong.

One of our key missions is to fulfil our corporate social responsibilities to society. In the wake of this year's snowstorm and earthquake disasters, our staff worked together to promptly provide financial services and funds for relief and reconstruction efforts. We quickly created "green channels" for various financial services, and implemented over ten special measures ranging from grace period for loan repayment to free remittance for donations. The Bank donated RMB52 million to the snowstorm and quake-hit areas, while our staff contributed a further RMB136 million to quake-hit areas. I am very proud of the strong unity and great courage displayed by our staff during crises and applaud their actions.

Faced with existing uncertainties in the current macroeconomic environment, the Bank will keep a close eye on economic changes, conduct further research and analysis, plan ahead and respond promptly to changes in external economic conditions. It will take all opportunities amid many challenges, uphold its commitment to customers, shareholders, employees and society, and work hard towards its strategic vision of “always standing in the forefront of China’s economic modernisation and becoming a world class bank”, striving to bring all its supporters more joy and return.

Guo Shuqing
Chairman

22 August 2008

President's Report

Dear shareholders,

During the first half of 2008, amid a complex and volatile operating environment, we continued with our business transformation, improved our risk management and customer services, and were fully committed to disaster relief efforts. All business lines have maintained a healthy momentum, which has laid a solid foundation for the achievement of this year's performance objectives.

Stronger business performance

The Group's profit before tax for the first half of 2008 was RMB75,655 million, representing a 49.69% growth over the same period last year; while net profit was RMB58,692 million, an increase of 71.34%. Operating income rose by 36.04% to RMB135,736 million in which net interest income went up 24.51% to RMB111,080 million and net interest margin climbed 0.18 percentage points to 3.29%. Net fee and commission income jumped 59.30% to RMB20,168 million, while the ratio of net fee and commission income to operating income rose to 14.86% with noticeable improvement in income structure.

The Group's total assets grew by 6.96% to RMB7,057,706 million, while total liabilities increased by 6.90% to RMB6,602,308 million. Under China's tightened monetary policy, the Group has reasonably adjusted the pace of its loan growth and taken the opportunity to restructure its loan portfolios. Consequently, gross loans and advances to customers rose by 8.11% to RMB3,537,537 million over the end of last year, with new infrastructure loans accounting for 58.23% of the corporate loan growth. Liquidity has benefited from our extensive branch network and solid customer base. Deposits from customers have climbed 8.48% to RMB5,781,573 million from the end of last year, with a reasonable loan-to-deposit ratio of 61.19%.

As at 30 June 2008, the Group's non-performing loans were RMB78,113 million, with the non-performing loan ratio down 0.39 percentage points to 2.21%. This decline was largely due to the Group's improved infrastructure and risk management, as well as our continued adjustment of loan structure and increased disposal of impaired assets. Adequate allowances for impairment losses were maintained as at 30 June 2008, and the ratio of allowances to non-performing loans rose by 12.82 percentage points to 117.23%.

As at 30 June 2008, the carrying amount of US sub-prime mortgage loan backed securities held by the Group stood at US$273 million, representing 0.97% of its foreign currency bond portfolio. We believe that fluctuations in the market value of these debt securities will not have a significant effect on the Group's earnings.

Effective business structure adjustments

In light of strengthened macro-adjustment measures in China during the first half of 2008 and our judgement of future economic trend, we have proactively taken the following measures to restructure and transform our business lines with good results achieved.

- *Improvement in corporate loan structure:* The Bank implemented improved economic capital and industry-specific cap policies, strictly followed credit policies related to different industries and sectors, and conducted targeted stress testing in order to mitigate credit risk and optimise loan structure. New loans were primarily extended to leading enterprises and high-quality customers. As at 30 June 2008, customers with internal credit ratings of A or above made up 89.50% of the total loans extended to corporate customers, 0.89 percentage points higher than that at the end of last year. Loans in industries subject to restrictive government policies and dubious asset quality fell by RMB31,876 million from the end of last year.

- *Steady retail business growth:* In the first half of 2008, personal deposits grew by a record RMB293,588 million, or 12.67%; personal loans rose by 6.74% to RMB772,613 million, of which personal residential mortgages recorded a 7.47% growth to RMB567,303 million. We continued to outperform competitors in the entrusted housing finance business as our provident housing fund loans claimed a 49.35% market share. Credit cards issued increased by 3.01 million to 15.61 million, with total spending amount rising by 95.73% to RMB63,345 million over the same period last year.

- *Rapid development of financial market business and investment banking:* Our treasury business generated an operating income of RMB26,588 million, or 113.27% over the same period last year. Safeguarding liquidity and safety, we have adjusted our asset structure appropriately for an enhanced rate of return, and our customer-driven trading transactions achieved strong growth. Sales of our wealth management products was among the best in domestic banks, with the 593 batches issued amounting to RMB548,963 million for the first half of the year.

- *Increased overseas expansion:* At the end of June 2008, our overseas assets climbed to RMB154,156 million with a pre-tax profit of RMB1,709 million. The Bank won approval from the CBRC to set up banking subsidiaries in London and Dubai, as well as a branch in Doha, Qatar. The board also passed a resolution to upgrade our representative office in Sydney, Australia to a branch.

Strengthened infrastructure management and customer services

The Bank's infrastructure development projects, which include overall risk management, network building, information technology (IT), and human resources management, have continued to progress. Management infrastructures and internal control have been further strengthened:

- We have fully utilised our credit monitoring system to enhance our risk monitoring and alerts, and in turn, improved our portfolio management. We have further improved our measurement method of economic capital and incorporated overseas branches in our bank-wide economic capital management. To improve our credit structure, we have implemented dual control of economic capital and industry-specific limits on loan extension.

- By the end of June 2008, a total of 9,207 or 68.69% of our retail offices had shifted from a transaction and accounting focus to a marketing service orientation, and were enjoying improved sales and service capabilities and greater customer satisfaction. Our "95533" call centre platform has been standardised across the Bank to enhance service quality. As of the end of June 2008, the number of the Bank's e-banking customers reached 92.10 million, with the ratio of transaction volume through e-banking to that through front desk rising to 40.19%. The Bank has 26,135 ATMs in operation, 2,278 more than the end of last year.

- We successfully implemented our strategic IT plans, accelerated the integration of IT applications and data, and further increased IT support for product innovation and the streamlining of our business processes.

- Compensation and performance appraisals have also been improved with balanced incentives and disciplines, while core personnel and mid-to-senior management have received more intensive trainings in order to enhance the overall quality of our staff.

Effective strategic cooperation

During the first half of 2008, remarkable achievements were made out of the strategic cooperation with Bank of America. With a sales and services process to VIP customers in place, the average sales grew by 144% at pilot branches under transformation. Completion of IT planning, data governance, and scorecard for credit card and mortgages deployment helped to improve the Bank's IT management, data management and risk control capabilities. Small and medium-sized enterprise product development, online banking system stability and customer experience improvement projects progressed smoothly, with an aim to enhancing our competitiveness in high-growth business areas. Fullerton Financial continued to assist us in fields such as small and medium-sized enterprise business, risk management and wealth management, and provided us with trainings in private banking certificate and wealth management at master degree level.

Steadfast disaster relief efforts

After the snowstorm in Southern China at the beginning of the year, the Bank extended special loans amounting to RMB24 billion through its express lending mechanism for disaster relief. When the devastating earthquake struck Wenchuan of Sichuan Province in May, we quickly set up tent or makeshift bank offices to resume banking services in the quake regions, and called for bank-wide efforts to offer “green channels” of various financial services. Our relief loans amounted to RMB12.5 billion. We were fully committed to supporting the quake-relief efforts, and provided timely services to our customers in quake-stricken areas.

Looking ahead

In the second half of the year, uncertainties in economic and financial environment at home and abroad is likely to increase. However, we believe that the fundamentals of China’s economy will remain the same. We will further analyse the macroeconomic and financial situation, make adjustment to our operational strategies as appropriate, and overcome the adverse impact of external factors on our operations to achieve the operating targets for the year.

We will step up structure adjustment and business transformation in line with the changes in national economy; actively foster new growth areas, and develop emerging businesses in connection with small and medium-sized enterprises and personal customers, consumer finance, intermediary business as well as overseas markets; rigorously expand debt business by attracting stable and cheap funding sources to ensure ample liquidity and stable operations; and study the effects of market fluctuations on our operations so as to take timely measures to mitigate risks. In addition, we will introduce effective measures to ensure stable and secure operations and services during the Beijing Olympics.

Opportunities and challenges are two sides of the same coin. I believe that, with the support of the Board, board of supervisors, and the support and trust of our shareholders, customers and the general public, alongside the hard work of our dedicated and ambitious staff, we will make further progress and fully achieve our annual performance targets.

Zhang Jianguo
Vice chairman, executive director and president

22 August 2008

Management Discussion and Analysis

FINANCIAL REVIEW

In the first half of 2008, the PRC economy sustained a steady and rapid growth as the Chinese government took timely measures to alleviate any adverse impacts of the complex economic and financial environment at home and abroad. GDP increased by 10.4% over the same period last year to RMB13.1 trillion.

China's financial sector was generally sound, and PBC continued to adopt stringent monetary policy with open market operations and six consecutive hikes in the statutory deposit reserve rate to a rate of 17.5%. At the end of June 2008, the outstanding broad money M2 increased by 17.4% over the same period last year, 0.3 percentage points higher in growth rate; the narrow money M1 rose by 14.2% over the same period last year, 6.7 percentage points lower in growth rate. Loans made in RMB rose by 14.1% over the same period last year, 2.4 percentage points lower in growth rate. With sustained revaluation, the RMB appreciated by 6.5% cumulatively against the US dollar during the first half of 2008. Trading was active in the money and bond markets. The stock market was volatile, while the foreign exchange market remained stable.

The Group keeps abreast of changes in economic and financial situation, and achieved fruitful results in its on-going business restructuring and transformation.

- Operating income was RMB135,736 million, an increase of 36.04% compared to the same period last year. Net interest income grew by 24.51% to RMB111,080 million and net fee and commission income rose by 59.30% to RMB20,168 million.

- Profit before tax reached RMB75,655 million, up 49.69% from the comparable period, while net profit was RMB58,692 million, an increase of 71.34%.

- Annualised return on average assets and annualised return on average equity were 1.72% and 26.36% respectively, an increase of 0.54 and 6.56 percentage points respectively over the same period last year.

- Basic and diluted earnings per share were RMB0.25, up RMB0.10 over the same period last year.

- Total assets amounted to RMB7,057,706 million, and total liabilities amounted to RMB6,602,308 million, with an increase of 6.96% and 6.90% respectively over the end of last year.

- Gross loans and advances to customers rose by 8.11% over the end of last year to RMB3,537,537 million. Infrastructure loans rose by RMB103,626 million, accounting for 58.23% of the increase in corporate loans.

- Credit asset quality continued to improve with the non-performing loan (NPL) ratio at 2.21%, a decrease of 0.39 percentage points from the end of last year.

Income Statement Analysis

In the first half of 2008, the Group recorded a profit before tax of RMB75,655 million, an increase of RMB25,113 million, or 49.69% over the same period last year. The increase was mainly attributable to rises in net interest income and net fee and commission income, which brought about a 36.04% increase in operating income compared to the same period last year, outweighing the 23.92% increase in operating expenses and 16.18% increase in provisions for impairment losses. A net profit of RMB58,692 million was recorded, with an increase of RMB24,437 million, or 71.34%, over the same period last year. As the PRC enterprise income tax rate dropped from 33% to 25% starting from 1 January 2008, the growth rate of the Group's net profit was higher than that of profit before tax.

Net Interest Income

In the first half of 2008, the Group's net interest income was RMB111,080 million, an increase of RMB21,867 million, or 24.51%, 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.

	Six months ended 30 June 2008			Six months ended 30 June 2007		
(In millions of RMB, except percentages)	Average balance	Interest income/ expense	Average annualised yield/cost (%)	Average balance	Interest income/ expense	Average annualised yield/cost (%)
Assets						
Gross loans and advances to customers	**3,414,782**	**120,638**	**7.07**	3,034,621	92,275	6.08
Investments in debt securities[1]	**2,178,212**	**39,247**	**3.60**	2,038,082	32,224	3.16
Balances with central banks	**989,515**	**9,228**	**1.87**	576,699	4,930	1.71
Amounts due from banks and non-bank financial institutions	**166,618**	**3,080**	**3.70**	93,803	1,468	3.13
Total interest-earning assets	**6,749,127**	**172,193**	**5.10**	5,743,205	130,897	4.56
Total allowances for impairment losses	**(98,287)**			(82,029)		
Non-interest-earning assets	**218,398**			163,617		
Total assets	**6,869,238**	**172,193**		5,824,793	130,897	
Liabilities						
Deposits from customers	**5,501,072**	**53,491**	**1.94**	4,875,773	35,833	1.47
Amounts due to banks and non-bank financial institutions	**724,758**	**6,190**	**1.71**	423,459	4,143	1.96
Subordinated bonds issued	**39,930**	**1,005**	**5.03**	39,936	954	4.78
Other interest-bearing liabilities	**22,761**	**427**	**3.75**	28,557	754	5.28
Total interest-bearing liabilities	**6,288,521**	**61,113**	**1.94**	5,367,725	41,684	1.55
Non-interest-bearing liabilities	**144,363**			124,038		
Total liabilities	**6,432,884**	**61,113**		5,491,763	41,684	
Net interest income		**111,080**			89,213	
Net interest spread			**3.16**			3.01
Net interest margin			**3.29**			3.11

1. These include investments in trading debt securities and investment debt securities. Investment debt securities refer to the available-for-sale debt securities, held-to-maturity debt securities and receivables under the category of the investment securities.

Higher average yields on various interest-earning assets over the same period last year were partly offset by the reduced proportion of the average balances of loans and advances to customers and investments in debt securities in total interest-earning assets. This resulted in a rise of 54 basis points in the overall average yield on interest-earning assets over the same period last year to 5.10%.

Higher average costs on deposits from customers and subordinated bonds issued over the same period last year were partly offset by a decrease in the average cost on the amounts due to banks and non-bank financial institutions and the enlarged proportion of their average balance in total interest-bearing liabilities, resulting in a rise of 39 basis points in the overall average cost on interest-bearing liabilities to 1.94%.

As the increase of the average yield for interest-earning assets was higher than that of the average cost for interest-bearing liabilities, the net interest spread rose by 15 basis points to 3.16% over the same period last year. The net interest income for the period increased by 24.51%, higher than the 17.51% growth of total interest-earning assets, pushing up the net interest margin by 18 basis points to 3.29%.

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

(In millions of RMB)	Volume factor[1]	Interest rate factor	Change in interest income/expense
Assets			
Loans and advances to customers	**13,430**	**14,933**	**28,363**
Investments in debt securities	**2,525**	**4,498**	**7,023**
Balances with central banks	**3,851**	**447**	**4,298**
Amounts due from banks and non-bank financial institutions	**1,346**	**266**	**1,612**
Change in interest income	**21,152**	**20,144**	**41,296**
Liabilities			
Deposits from customers	**6,080**	**11,578**	**17,658**
Amounts due to banks and non-bank financial institutions	**2,573**	**(526)**	**2,047**
Subordinated bonds issued	**—**	**51**	**51**
Other interest-bearing liabilities	**(114)**	**(213)**	**(327)**
Change in interest expense	**8,539**	**10,890**	**19,429**
Change in net interest income	**12,613**	**9,254**	**21,867**

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

The net interest income increased by RMB21,867 million over the same period last year, in which RMB12,613 million was due to the movement of the average balances of assets and liabilities, and RMB9,254 million was due to the movement of average yields or costs. The contributions to the increase of net interest income from volume factor and interest rate factor were 57.68% and 42.32%, respectively.

Interest income

The Group's interest income in the first half of 2008 was RMB172,193 million, an increase of RMB41,296 million, or 31.55%, over the same period last year. This was largely attributable to the increase in the average balances of loans and advances to customers and investments in debt securities as well as their respective average yields.

Interest income from loans and advances to customers

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

	Six months ended 30 June 2008			Six months ended 30 June 2007		
(In millions of RMB, except percentages)	**Average balance**	**Interest income**	**Average annualised yield (%)**	Average balance	Interest income	Average annualised yield (%)
Corporate loans	**2,449,333**	**88,131**	**7.20**	2,157,657	68,540	6.35
Personal loans	**743,171**	**26,105**	**7.03**	633,716	18,912	5.97
Discounted bills	**111,608**	**3,928**	**7.04**	165,374	2,657	3.21
Overseas operations	**110,670**	**2,474**	**4.47**	77,874	2,166	5.56
Gross loans and advances to customers	**3,414,782**	**120,638**	**7.07**	3,034,621	92,275	6.08

Interest income from loans and advances to customers surged to RMB120,638 million, an increase of RMB28,363 million, or 30.74%, over the same period last year, mostly as a result of the steady expansion of corporate and personal loan businesses and the increased average yields on domestic loans. The average yield on loans and advances to customers rose by 0.99 percentage points over the same period last year, largely because with the continuing effect in 2008 of the PBC's six consecutive hikes in benchmark lending rates in 2007 and the Group's enhanced bargaining power, the average yields on corporate loans, personal loans and discounted bills climbed by 85 basis points, 106 basis points and 383 basis points respectively over the same period last year.

Interest income from investments in debt securities

Interest income from investments in debt securities was RMB39,247 million, up RMB7,023 million, or 21.79%, over the same period last year. To be more specific, the interest income from investment debt securities grew by 21.14% to RMB38,876 million, while that from trading debt securities grew by 178.95% to RMB371 million. The expanded interest income was mainly due to the fact that with rising yields of RMB investment portfolios, the Group actively adjusted the asset allocations and properly took investment opportunities, which led to a rise of 44 basis points in the average yield to 3.60%; an increase of 6.88% in the average balance of investments in debt securities compared to the same period last year also contributed to the increase of interest income.

Interest income from balances with central banks

Interest income from balances with central banks amounted to RMB9,228 million, a rise of RMB4,298 million, or 87.18%, over the same period last year. The rise was mainly because the average balance of the statutory deposit reserve increased by 67.10% over the same period last year, as the PBC lifted the reserve rate several times to 17.5%.

Interest income from amounts due from banks and non-bank financial institutions

Interest income from amounts due from banks and non-bank financial institutions increased by RMB1,612 million to RMB3,080 million, or 109.81% over the same period last year. This was largely due to a 77.63% rise in the average balance of amounts due from banks and non-bank financial institutions. Furthermore, the average yield for the amounts due from banks and non-bank financial institutions rose by 57 basis points to 3.70% because of rising domestic inter-bank market rates.

Interest expense

In the first half of 2008, the Group's interest expense was RMB61,113 million, an increase of RMB19,429 million, or 46.61%, over the same period last year. This was primarily due to increases in the average balances of deposits from customers and amounts due to banks and non-bank financial institutions, as well as the rising average cost of deposits from customers.

Interest expense on deposits from customers

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

	Six months ended 30 June 2008			Six months ended 30 June 2007		
(In millions of RMB, except percentages)	**Average balance**	**Interest expense**	**Average annualised cost (%)**	Average balance	Interest expense	Average annualised cost (%)
Corporate deposits	**2,948,322**	**25,198**	**1.71**	2,538,670	16,436	1.29
Demand deposits	**2,037,719**	**10,234**	**1.00**	1,778,797	8,227	0.93
Time deposits	**910,603**	**14,964**	**3.29**	759,873	8,209	2.16
Personal deposits	**2,483,475**	**27,464**	**2.21**	2,286,044	18,420	1.61
Demand deposits	**1,034,052**	**3,708**	**0.72**	893,078	3,316	0.74
Time deposits	**1,449,423**	**23,756**	**3.28**	1,392,966	15,104	2.17
Overseas operations	**69,275**	**829**	**2.39**	51,059	977	3.83
Total deposits from customers	**5,501,072**	**53,491**	**1.94**	4,875,773	35,833	1.47

Interest expense on deposits from customers was RMB53,491 million, an increase of RMB17,658 million, or 49.28%, over the same period last year, mainly as a result of the higher average balance as well as rising average cost of the deposits. Under the persisting effect of the PBC's six hikes of benchmark time deposit rate in 2007, the average cost for deposits was 47 basis points higher than that for the same period last year. As the domestic capital market became more volatile and interest spread between time and demand deposits widened since the beginning of this year, the proportion of the average balance of domestic time deposits in total deposits rose 27 basis points over the end of last year. This has limited impact on the average cost of the deposits from customers for the first half of this year, but will push up the cost of deposits in the long run.

Interest expense on amounts due to banks and non-bank financial institutions

Interest expense on the amounts due to banks and non-bank financial institutions reached RMB6,190 million, a rise of RMB2,047 million, or 49.41%, over the same period last year. This was largely due to a 71.15% increase in the average balance of the amounts due to banks and non-bank financial institutions. Average cost of the amounts due to banks and non-bank financial institutions fell 25 basis points over the same period last year, primarily because the Group proactively managed its liabilities, and encouraged attraction of low cost funding with methods such as fund transfer pricing. Meanwhile, due to the falling London inter-bank offered rate, the average cost on the foreign currency (mostly USD-denominated) amounts due to banks and non-bank financial institutions dropped significantly over that for the same period last year.

Net Fee and Commission Income

(In millions of RMB)	**Six months ended 30 June 2008**	Six months ended 30 June 2007
Fee and commission income	**20,926**	13,271
Fees for agency services	**6,190**	6,046
Consultancy and advisory fees	**3,562**	1,366
Bank card fees	**3,258**	2,299
Commission on trust and fiduciary business	**2,603**	1,219
Settlement and clearing fees	**2,238**	1,579
Guarantee and credit commitment fees	**1,727**	417
Others	**1,348**	345
Fee and commission expenses	**(758)**	(611)
Net fee and commission income	**20,168**	12,660

The Group continued to take incentive and disciplinary measures to spur intermediary business development, and intensified its product innovation and market expansion efforts. In the first half of 2008, net fee and commission income was RMB20,168 million, an increase of RMB7,508 million, or 59.30%, over the same period last year. The ratio of net fee and commission income to operating income rose by 2.17 percentage points over the same period last year to 14.86%.

Fees for agency services increased by RMB144 million, or 2.38%, to RMB6,190 million over the same period last year, in which fees for insurance agency services surged by 246.88% to RMB1,651 million, mainly because the insurance agency business developed rapidly as a result of the Group's improved management and business processes.

Consultancy and advisory fees increased by RMB2,196 million, or 160.76%, to RMB3,562 million. In this amount, financial advisory fees surged by 165.10% to RMB2,377 million, while engineering cost advisory fees increased by 122.19% to RMB811 million.

Bank card fees grew by RMB959 million, or 41.71%, to RMB3,258 million, largely due to a rise in the number of cards issued as well as a substantial increase in both consumer spending and transactions through self-service facilities.

Commission on trust and fiduciary business rose by RMB1,384 million, or 113.54%, to RMB2,603 million. The fees from custodial service for securities investment funds climbed by 173.86% to RMB758 million, largely because the number of funds under custody continued to grow with the Group's increased marketing efforts and product mix adjustment.

Settlement and clearing fees climbed by RMB659 million, or 41.74%, to RMB2,238 million, thanks to the rapid growth of the international settlement business, which realised fees of RMB939 million with an increase of 140.98%.

Guarantee and credit commitment fees increased by RMB1,310 million, or 314.15%, to RMB1,727 million, mostly due to the rapid growth in commitment and guarantee services.

Other fees reached RMB1,348 million, an increase of RMB1,003 million, or 290.72%, in which fees for wealth management agency service surged by 12.51 times to RMB414 million.

Other Net Operating Income

In the first half of 2008, the Group recorded other net operating income of RMB1,475 million, in which there was a net foreign exchange gain of RMB759 million, a net gain of RMB84 million on disposal of property and equipment, a net gain of RMB28 million on disposal of repossessed assets, and other income of RMB604 million.

The specific composition of foreign exchange exposures as at 30 June 2008 and the respective profit and loss for the first half of 2008 are set out below.

	As at 30 June 2008 Composition of foreign exchange exposures			**Six months ended 30 June 2008 Foreign exchange gain**
(In millions of RMB)	**On balance sheet**	**Off-balance sheet**	**Total**	
Foreign currency assets and proprietary financial derivatives	**180,814**	**(180,814)**	**—**	**530**
Others	**15,575**	**20,992**	**36,567**	**229**
Net foreign exchange exposure	**196,389**	**(159,822)**	**36,567**	
Net foreign exchange gain				**759**

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

The Group actively developed its foreign currency business, with a view to satisfying customers’ needs and enhancing the overall yield. In order to minimise the risk associated with foreign exchange, the Group entered into relevant transactions in derivative financial instruments. During the first half of 2008, the net gain on foreign currency assets was RMB530 million, after taking into account the effect of the financial derivatives for hedging purpose. This was mainly because the revaluation gain of cross-currency interest rate swap increased, as the RMB interest rates rose steadily while the interest rates of US dollars fell gradually starting from the second half of 2007.

Other net exchange gain

The net gain from customer-driven forex trading and revaluation of net foreign exchange exposure of the Group was RMB229 million, in which the net gain from customer-driven forex trading reached RMB1,936 million, mainly because of rising net revaluation gain of customer-driven forward forex sales and purchase business.

Operating Expenses

(In millions of RMB, except percentages)	**Six months ended 30 June 2008**	Six months ended 30 June 2007
Staff costs	**22,093**	18,576
Premises and equipment expenses	**7,225**	6,057
Business tax and surcharges	**7,717**	5,665
Others	**9,158**	6,977
Total operating expenses	**46,193**	37,275
Cost-to-income ratio	**34.03%**	37.36%

In the first half of 2008, the total operating expenses increased by RMB8,918 million, or 23.92% over the same period last year, to RMB46,193 million. The Group continued to strengthen cost controls, and the cost-to-income ratio was further reduced to 34.03% with improved cost efficiency.

Staff costs went up by 18.93% to RMB22,093 million, lower than the 36.04% increase in operating income. The cost rise was mainly due to the increase in the Group's staff salaries in line with the increase in national average salary level and improved operating results. Premises and equipment expenses rose by 19.28%, largely because of higher utilities costs and property management fees accompanying overall price increases. Business tax and surcharges increased by RMB2,052 million, or 36.22%, in line with higher operating income. Other operating expenses climbed by 31.26%, mainly because the Group strengthened marketing initiatives, which led to increased expenditure in business expansion and advertising.

Provisions for Impairment Losses

(In millions of RMB)	**Six months ended 30 June 2008**	Six months ended 30 June 2007
Loans and advances to customers	**11,458**	11,648
Investments	**2,492**	165
— Available-for-sale financial assets	**2,139**	87
— Held-to-maturity debt securities	**989**	77
— Debt securities classified as receivables	**(636)**	1
Property and equipment	**21**	—
Others	**(65)**	156
Provisions for impairment losses	**13,906**	11,969

In the first half of 2008, the Group's provisions for impairment losses totalled RMB13,906 million, an increase of RMB1,937 million over the same period last year. In this amount, the provisions for impairment losses on loans and advances to customers dropped RMB190 million; those on investments increased by RMB2,327 million; those on repossessed assets included in other provisions were RMB13 million.

Provisions for impairment losses on loans and advances to customers

	Six months ended 30 June 2008			
		Allowances for impaired loans and advances		
(In millions of RMB)	Allowances for loans and advances which are collectively assessed	which are collectively assessed	which are individually assessed	Total
As at 1 January	**35,785**	**4,928**	**48,215**	**88,928**
Charge for the period	**7,321**	**935**	**7,649**	**15,905**
Release during the period	**–**	**–**	**(4,447)**	**(4,447)**
Unwinding of discount	**–**	**–**	**(802)**	**(802)**
Transfers out	**–**	**(1)**	**(6,574)**	**(6,575)**
Write-offs	**–**	**(107)**	**(1,425)**	**(1,532)**
Recoveries	**–**	**3**	**92**	**95**
As at 30 June	**43,106**	**5,758**	**42,708**	**91,572**

During the first half of 2008, the Group addressed the impacts of macroeconomic changes and natural disasters as appropriate, and the provisions for impairment losses on loans and advances to customers were RMB11,458 million, in which the provisions for impairment losses due to the disastrous effects of the earthquake were RMB3,486 million. As at 30 June 2008, the balance of the allowances for impairment losses on loans and advances to customers increased by RMB2,644 million to RMB91,572 million over the end of last year, while the ratio of allowances to non-performing loans was 117.23%, up 12.82 percentage points over the end of 2007.

Provisions for impairment losses on investments

Provisions for impairment losses on investments were RMB2,492 million. In this amount, the provisions for impairment losses on available-for-sale financial assets and those on held-to-maturity debt securities increased by RMB2,052 million and RMB912 million respectively over the same period last year, which were mainly because the Group provided US$426 million (equivalent to RMB2,921 million) for its debt securities investments in foreign currency based on their credit position and market factors; an amount of RMB636 million was released from the provisions for impairment losses on debt securities classified as receivables, as a bond which was issued by a non-bank financial institution and acquired in prior years was fully recovered during the period and its impairment allowances were duly released.

Income Tax

In the first half of 2008, the Group's income tax reached RMB16,963 million, RMB676 million higher than the same period last year. The growth rate of 4.15% was much lower than that of profit before tax, as the PRC enterprise tax rate dropped from 33% to 25% starting from 1 January 2008. The Group's effective income tax rate was 22.42%, lower than the 25% statutory rate, largely because the interest income from the PRC government bonds held by the Group was non-taxable in accordance with tax regulations.

Balance Sheet Analysis

Assets

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

(In millions of RMB, except percentages)	**As at 30 June 2008** Amount	%	As at 31 December 2007 Amount	%
Gross loans and advances to customers	**3,537,537**		3,272,157	
Allowances for impairment losses on loans	**(91,572)**		(88,928)	
Net loans and advances to customers	**3,445,965**	**48.83**	3,183,229	48.24
Investment securities	**2,156,255**	**30.55**	2,171,991	32.92
Cash and balances with central banks	**1,083,136**	**15.35**	967,374	14.66
Amounts due from banks and non-bank financial institutions	**125,201**	**1.77**	102,393	1.55
Trading investments	**76,495**	**1.08**	29,819	0.45
Others[1]	**170,654**	**2.42**	143,371	2.18
Total assets	**7,057,706**	**100.00**	6,598,177	100.00

1. These comprise positive fair value of derivatives, interests in associate and jointly controlled entities, property and equipment, goodwill, deferred tax assets, and other assets.

As at 30 June 2008, the Group's total assets amounted to RMB7,057,706 million, an increase of RMB459,529 million, or 6.96%, over the end of 2007. Gross loans and advances to customers grew by RMB265,380 million, or 8.11%, while investment securities decreased by RMB15,736 million, mainly because the Group had adjusted the investment structure by reducing debt securities investments in foreign currency. Since the PBC raised the statutory deposit reserve rate consecutively during the first half of the year, the Group's cash and balances with central banks increased by RMB115,762 million, or 11.97%, over the end of last year, with its proportion in total assets up by 0.69 percentage points. The Group's amounts due from banks and non-bank financial institutions climbed by RMB22,808 million, or 22.27%, largely due to the expansion of reverse repos with banks and non-bank financial institutions. Thanks to the growth of customer-driven bond transactions in wealth management, the Group's trading investments soared by RMB46,676 million, or 156.53%.

Loans and advances to customers

(In millions of RMB, except percentages)	As at 30 June 2008 Amount	%	As at 31 December 2007 Amount	%
Corporate loans	**2,522,705**	**71.31**	2,344,757	71.66
Short-term loans	**831,152**	**23.49**	820,908	25.09
Medium to long-term loans	**1,691,553**	**47.82**	1,523,849	46.57
Personal loans	**772,613**	**21.84**	723,805	22.12
Residential mortgages	**567,303**	**16.04**	527,888	16.13
Personal consumer loans	**70,108**	**1.98**	66,573	2.03
Other loans[1]	**135,202**	**3.82**	129,344	3.96
Discounted bills	**117,225**	**3.31**	102,826	3.14
Overseas operations	**124,994**	**3.54**	100,769	3.08
Gross loans and advances to customers	**3,537,537**	**100.00**	3,272,157	100.00

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

As at 30 June 2008, the Group's gross loans and advances to customers rose by 8.11% to RMB3,537,537 million over the end of 2007. In the face of tightened macroeconomic controls, the Group proactively adjusted credit structure, and well met its key customers' needs and achieved growth in strategic products.

Corporate loans reached RMB2,522,705 million, an increase of RMB177,948 million, or 7.59%, over the end of 2007. The Bank adopted a differentiated development strategy and adjusted its loan mix and customer base to develop its core business and meet its premium customers' demands. The Group gradually exited from the less profitable or more risky industries. Infrastructure loans climbed 12.25% to RMB949,756 million, with the new infrastructure loans accounting for 58.23% of the corporate loan growth. By selecting the best possible customers and implementing stringent lending criteria, the Group improved its corporate loan customer base, and the proportion of customers with internal credit ratings of A or above went up 0.89 percentage points to 89.50% compared to the end of last year.

Personal loans increased by RMB48,808 million, or 6.74%, over the end of last year to RMB772,613 million, accounting for 21.84% of the gross loans and advances to customers with a decrease of 0.28 percentage points. In this amount, the residential mortgages rose by RMB39,415 million, or 7.47%; personal consumer loans grew by RMB3,535 million, or 5.31%; other loans rose by RMB5,858 million, or 4.53%. Amid strengthened macro-adjustments and volatility of property market in certain areas, the Bank implemented differentiated development strategy for regions, products and customers to meet credit needs of premium personal customers, and took active measures to avoid systemic risk in regional markets.

The balance of discounted bills increased by RMB14,399 million over the end of last year to RMB117,225 million. This was chiefly because the Group expanded discounting business for bills with short maturities in light of growing yield on discounted bills to improve funds return.

Loans and advances to overseas customers rose by RMB24,225 million over the end of 2007 to RMB124,994 million. The rapid growth of these loans was mainly because the Group continued to support its overseas branches in terms of resources, which proactively increased their marketing efforts.

Investments

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

	As at 30 June 2008		As at 31 December 2007	
(In millions of RMB, except percentages)	**Amount**	**%**	Amount	%
Debt instruments[1]	**1,656,168**	**74.18**	1,613,679	73.29
Debt securities classified as receivables	**551,859**	**24.71**	551,336	25.04
Equity instruments[2]	**24,723**	**1.11**	36,795	1.67
Total investments	**2,232,750**	**100.00**	2,201,810	100.00

1. These comprise held-to-maturity debt securities, available-for-sale debt securities and trading debt securities.

2. These comprise equity investments and funds.

As at 30 June 2008, total investments increased by RMB30,940 million to RMB2,232,750 million, or 1.41% compared to the end of 2007. Debt instruments increased by RMB42,489 million, in which trading debt securities and available-for-sale debt securities increased by RMB45,974 million and RMB54,089 million respectively; held-to-maturity debt securities decreased by RMB57,574 million from the end of 2007, mainly due to the reduction in foreign currency debt investments. Receivables grew by RMB523 million to RMB551,859 million. Equity investments dropped by RMB12,072 million, primarily because of a reduction in the fair value of the listed shares held through debt equity swap (including those subject to selling restrictions).

Debt securities investments in foreign currency

As at 30 June 2008, the carrying amount of foreign currency debt securities investment portfolio held by the Group was US$28,085 million (or RMB192,545 million).

As at 30 June 2008, the nominal value of US sub-prime mortgage loan backed securities held by the Group was US$273 million (or RMB1,873 million), accounting for 0.97% of the foreign currency debt securities investment portfolio. Based on the Bloomberg composite rating, the percentages of securities with a rating of AAA, AA, and A were 78.91%, 9.75% and 1.91% respectively.

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	215	273
First lien debt securities	147	249
Second lien debt securities	68	24
Related residential mortgage collateralised debt obligations (CDO)	456	—
Total	671	273

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

Given the credit profile and market factors of the US sub-prime mortgage loan backed securities, as at 30 June 2008, the allowances for impairment losses on such debt securities amounted to US$671 million (or RMB4,600 million), an increase of US$41 million (or RMB281 million) compared to the end of 2007.

As at 30 June 2008, the carrying amount of the Alt-A bonds held by the Group was US$357 million (or RMB2,449 million), accounting for 1.27% of the foreign currency debt securities investment portfolio, and 98.95% of the Alt-A bonds had a Bloomberg composite rating of AAA.

As the above debt securities represent only a small proportion of the Group's foreign currency debt securities investment portfolio, market fluctuations for such debt securities will not have significant effect on the Group's earnings.

As at 30 June 2008, the carrying amount of the securities related to Fannie Mae and Freddie Mac held by the Group was US$3,250 million (or RMB22,279 million). In this amount, mortgage backed securities guaranteed by these two companies were US$695 million (or RMB4,764 million), all with a Bloomberg composite rating of AAA; bonds issued by these two companies were US$2,555 million (or RMB17,515 million), and 98.35% of such bonds had a Bloomberg composite rating of AAA.

Liabilities

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

	As at 30 June 2008		As at 31 December 2007	
(In millions of RMB, except percentages)	**Amount**	**%**	Amount	%
Deposits from customers	**5,781,573**	**87.57**	5,329,507	86.30
Amounts due to banks and non-bank financial institutions	**601,073**	**9.10**	606,061	9.81
Amounts due to central banks	**1,362**	**0.03**	50,973	0.83
Subordinated bonds issued	**39,933**	**0.60**	39,928	0.65
Others[1]	**178,367**	**2.70**	149,427	2.41
Total liabilities	**6,602,308**	**100.00**	6,175,896	100.00

1. These comprise trading financial liabilities, derivative financial liabilities, certificates of deposit issued, current tax liabilities, deferred tax liabilities, and other liabilities and provisions.

As at 30 June 2008, the Group's total liabilities were RMB6,602,308 million, an increase of RMB426,412 million, or 6.90%, over the end of 2007. Deposits from customers, the most important source of the Group's funding, grew by RMB452,066 million, or 8.48%, accounting for 87.57% of the total liabilities with an increase of 1.27 percentage points. Amounts due to banks and non-bank financial institutions decreased by RMB4,988 million, with their proportion in total liabilities down 0.71 percentage points to 9.10%. This was mainly because the deposits from banks and non-bank financial institutions dropped by RMB37,374 million over the end of last year with the volatile domestic capital markets. Amounts due to central banks decreased by RMB49,611 million, mainly because the repos conducted with the PBC in 2007 have matured.

Deposits from customers

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

	As at 30 June 2008		As at 31 December 2007	
(In millions of RMB, except percentages)	**Amount**	**%**	Amount	%
Corporate deposits	**3,103,420**	**53.68**	2,945,305	55.27
Demand deposits	**2,126,829**	**36.79**	2,084,193	39.11
Time deposits	**976,591**	**16.89**	861,112	16.16
Personal deposits	**2,609,909**	**45.14**	2,316,321	43.46
Demand deposits	**1,032,169**	**17.85**	997,164	18.71
Time deposits	**1,577,740**	**27.29**	1,319,157	24.75
Overseas operations	**68,244**	**1.18**	67,881	1.27
Total deposits from customers	**5,781,573**	**100.00**	5,329,507	100.00

As at 30 June 2008, the Group's deposits from customers grew by 8.48%, higher than the 6.90% growth of total liabilities. Corporate deposits in the PRC went up 5.37%, against the 12.67% increase of personal deposits. This led to a drop of 1.59 percentage points in the proportion of corporate deposits in total deposits from customers to 53.68%. The decrease was largely because the volatile domestic capital market, coupled with deposit rate hikes, caused an influx of personal deposits as residents had a higher propensity for saving. In addition, with the widening interest spread between demand and time deposits, domestic time deposits surged by 17.16%, much higher than the 2.52% increase in domestic demand deposits. The proportion of domestic time deposits in total deposits went up 3.27 percentage points to 44.18%.

Shareholders' Equity

(In millions of RMB)	**As at 30 June 2008**	As at 31 December 2007
Share capital	**233,689**	233,689
Capital reserve	**90,241**	90,241
General reserve	**46,573**	31,548
Retained earnings	**60,616**	32,164
Other reserves[1]	**22,911**	33,335
Equity attributable to shareholders of the Bank	**454,030**	420,977
Minority interests	**1,368**	1,304
Total equity	**455,398**	422,281

1. These comprise the statutory surplus reserve fund, investment revaluation reserve and exchange reserve.

As at 30 June 2008, the Group's total equity reached RMB455,398 million, an increase of RMB33,117 million compared to the end of 2007. The ratio of total equity to total assets for the Group was 6.45%, a rise of 0.05 percentage points compared to the end of 2007.

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 2008**	As at 31 December 2007
Core capital adequacy ratio[1]	**10.08%**	10.37%
Capital adequacy ratio[2]	**12.06%**	12.58%
Components of capital base		
Core capital:		
Share capital	**233,689**	233,689
Capital reserve, investment revaluation reserve and exchange reserve	**80,635**	85,408
Surplus reserve and general reserve	**64,418**	49,393
Retained earnings[3, 4]	**34,534**	16,609
Minority interests	**1,368**	1,304
	414,644	386,403
Supplementary Capital:		
General provision for doubtful debts	**35,720**	33,373
Positive changes in fair value of available-for-sale investments and trading financial instruments	**7,603**	10,527
Long-term subordinated debts	**40,000**	40,000
	83,323	83,900
Total capital base before deductions	**497,967**	470,303
Deductions:		
Goodwill	**(1,525)**	(1,624)
Unconsolidated equity investments	**(6,065)**	(4,687)
Others[5]	**(337)**	(810)
Total capital base after deductions	**490,040**	463,182
Risk-weighted assets[6]	**4,064,888**	3,683,123

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

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

3. Retained earnings have been deducted by the dividend recommended by the Bank after the balance sheet date for distribution.

4. The reserve arising from the cumulative net positive changes in the fair value of available-for-sale investments is excluded from the core capital and 50% of the balance is included in supplementary capital. In addition, the unrealised cumulative 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.

6. Risk-weighted assets include 12.5 times of market risk capital.

According to the *Administrative Measures for Commercial Banks Capital Adequacy Ratios* promulgated by the CBRC, as at 30 June 2008, the Group's capital adequacy ratio and core capital adequacy ratio were 12.06% and 10.08% respectively, on a consolidated basis, declining by 0.52 and 0.29 percentage points respectively, over the end of 2007. The decrease in capital adequacy ratio was mainly because the total capital base after deductions increased by 5.80%, while risk-weighted assets climbed by 10.37% largely due to the Group's steady growth of on-balance sheet assets and rapid expansion of off-balance sheet operations.

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 2008		As at 31 December 2007	
(In millions of RMB, except percentages)	**Amount**	**%**	Amount	%
Normal	**3,242,220**	**91.65**	2,959,553	90.45
Special mention	**217,204**	**6.14**	227,434	6.95
Substandard	**27,922**	**0.79**	25,718	0.79
Doubtful	**39,536**	**1.12**	48,159	1.47
Loss	**10,655**	**0.30**	11,293	0.34
Gross loans and advances to customers	**3,537,537**	**100.00**	3,272,157	100.00
Non-performing loans	**78,113**		85,170	
Non-performing loan ratio		**2.21**		2.60

In the first half of 2008, the Group made vigorous credit structure adjustments, and further strengthened its risk monitoring and early warning mechanism. Risks associated with large credit customers were mitigated by teams of experts on a per account basis, and innovative methods such as securitisation were used to expedite NPL disposals. Credit asset quality continued to improve, and as at 30 June 2008 the Group's NPLs was RMB78,113 million, a decrease of RMB7,057 million from the end of 2007, while the NPL ratio dropped by 0.39 percentage points to 2.21%; the structure of NPLs improved as well.

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 2008			As at 31 December 2007		
(In millions of RMB, except percentages)	**Loans**	**NPLs**	**NPL ratio (%)**	Loans	NPLs	NPL ratio (%)
Corporate loans	**2,522,705**	**68,636**	**2.72**	2,344,757	76,877	3.28
Short-term loans	**831,152**	**35,115**	**4.22**	820,908	43,489	5.30
Medium to long-term loans	**1,691,553**	**33,521**	**1.98**	1,523,849	33,388	2.19
Personal Loans	**772,613**	**9,109**	**1.18**	723,805	7,925	1.09
Residential mortgages	**567,303**	**5,079**	**0.90**	527,888	4,222	0.80
Personal consumer loans	**70,108**	**1,925**	**2.75**	66,573	1,966	2.95
Other loans[1]	**135,202**	**2,105**	**1.56**	129,344	1,737	1.34
Discounted bills	**117,225**	**—**	**—**	102,826	—	—
Overseas operations	**124,994**	**368**	**0.29**	100,769	368	0.37
Total	**3,537,537**	**78,113**	**2.21**	3,272,157	85,170	2.60

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

In the first half of 2008, the Group further improved its loan structure and all lines of businesses grew steadily, leading to continued improvement of loan quality. As at 30 June 2008, the NPL ratio for corporate loans fell 0.56 percentage points to 2.72%, compared to that at the end of 2007. Due to factors such as the natural disasters, the NPLs and NPL ratio for personal loans slightly increased over the end of last year, but remained relatively low. The NPL ratio for overseas operations dropped by 0.08 percentage points to 0.29% as the overseas operations developed soundly.

Distribution of Loans and NPLs by Industry

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

	As at 30 June 2008				As at 31 December 2007			
(In millions of RMB, except percentages)	Loans	Percent of total (%)	NPLs	NPL ratio (%)	Loans	Percent of total (%)	NPLs	NPL ratio (%)
Corporate loans								
Manufacturing	634,805	17.94	20,169	3.18	592,502	18.11	24,834	4.19
Production and supply of electric power, gas and water	408,726	11.55	6,857	1.68	377,285	11.53	5,957	1.58
Transportation, storage and postal services	399,572	11.30	6,173	1.54	370,732	11.33	5,978	1.61
Real estate	333,177	9.42	14,003	4.20	317,780	9.71	15,372	4.84
Water, environment and public utility management	125,993	3.56	1,620	1.29	106,693	3.26	1,258	1.18
Leasing and commercial services	114,665	3.24	3,201	2.79	92,968	2.84	2,911	3.13
Construction	109,920	3.11	2,322	2.11	101,467	3.10	2,582	2.54
Wholesale and retail trade	96,244	2.72	6,131	6.37	89,289	2.73	7,816	8.75
Education	79,580	2.25	1,273	1.60	78,153	2.39	1,430	1.83
Mining	78,146	2.21	448	0.57	69,666	2.13	636	0.91
Telecommunications, computer services and software	29,474	0.83	777	2.64	35,846	1.10	1,159	3.23
Others	112,403	3.18	5,662	5.04	112,376	3.43	6,944	6.18
Sub-total	2,522,705	71.31	68,636	2.72	2,344,757	71.66	76,877	3.28
Personal loans	772,613	21.84	9,109	1.18	723,805	22.12	7,925	1.09
Discounted bills	117,225	3.31	–	–	102,826	3.14	–	–
Overseas operations	124,994	3.54	368	0.29	100,769	3.08	368	0.37
Total	3,537,537	100.00	78,113	2.21	3,272,157	100.00	85,170	2.60

In the first half of 2008, the Group refined its lending and exit criteria for industries, tightened credit extension to industries with higher NPL ratios, and stepped up industry structure adjustments. Consequently, the overall loan quality continued to improve. In particular, the NPLs and NPL ratios for the wholesale and retail trade, real estate and manufacturing industries, which used to have higher NPL ratios, continued to decline. The NPLs for some infrastructure industries rose as a result of the earthquake.

Off-Balance Sheet Items

The Group's off-balance sheet items were mainly commitments and contingent liabilities, specifically including credit commitments, capital commitments, operating lease commitments, outstanding litigation and disputes, securities underwriting obligations, redemption obligations, and provision against commitments and contingent liabilities. Among these, the credit commitments were the most significant part, which amounted to RMB1,204,965 million as at 30 June 2008.

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

There are no differences in the net profit for the six months ended 30 June 2008 or total equity as at 30 June 2008 between the Group's consolidated financial statements prepared under PRC GAAP and those prepared under IFRS.

BUSINESS OPERATIONS

The Group's main business segments include corporate banking, personal banking, treasury business, and others and unallocated items which comprise equity investment and overseas operation.

The following table lists each segment's profit before tax for the period.

(In millions of RMB, except percentages)	**Six months ended 30 June 2008** Amount	%	Six months ended 30 June 2007 Amount	%
Corporate banking	**40,116**	**53.02**	27,984	55.37
Personal banking	**11,651**	**15.40**	12,698	25.12
Treasury business	**22,533**	**29.78**	10,167	20.12
Others and unallocated	**1,355**	**1.80**	(307)	(0.61)
Profit before tax	**75,655**	**100.00**	50,542	100.00

Corporate Banking

The table below sets forth the operating information and changes related to corporate banking.

(In millions of RMB, except percentages)	**Six months ended 30 June 2008**	Six months ended 30 June 2007	**Change (%)**
Net interest income	**61,384**	50,754	20.94
Net fee and commission income	**7,864**	3,121	151.97
Other operating income	**107**	98	9.18
Operating income	**69,355**	53,973	28.50
Operating expenses	**(19,875)**	(15,946)	24.64
Provisions for impairment losses	**(9,364)**	(10,043)	(6.76)
Profit before tax	**40,116**	27,984	43.35
	As at 30 June 2008	As at 31 December 2007	
Segment assets	**2,978,088**	2,748,782	8.34

For the first half of 2008, the corporate banking achieved operating income of RMB69,355 million, an increase of 28.50% over the same period last year. The profit before tax rose 43.35% to RMB40,116 million, accounting for 53.02% of the profit before tax of the Group. These results are attributable to the following: The yield on credit assets rose due to the improvement of business and income structure; and the net fee and commission income rose by a substantial 151.97% to RMB7,864 million.

Effective adjustment of credit structure. As at 30 June 2008, corporate loans totalled RMB2,522,705 million, a rise of 7.59% compared to the end of 2007, of which infrastructure loans increased by 12.25% to RMB949,756 million, and loans to small businesses increased by 11.16% to RMB249,532 million. The proportion of corporate loans granted to customers with internal credit ratings of A or above increased 0.89 percentage points to 89.50% of our total corporate loan balance. "Green Credit" has been taken up to support energy-saving, emission-cutting and environmentally friendly industries and projects, and the Bank has taken initiatives to retreat from lower-end customers in industries with dubious asset quality and gloomy prospect, and industries with excess capacity, high energy consumption or high pollution. Loans in the "opted-out" category fell by RMB31,876 million.

Rapid growth in net fee and commission income. The net fee and commission income from corporate banking increased by 151.97% to RMB7,864 million, accounting for 38.99% of the total net fee and commission income with an increase of 14.34 percentage points. The major sources of revenues are: commitments, corporate settlement service, insurance agency service and engineering cost advisory service.

- Agency services for institutional customers gained leading market position with innovation. Our independent custodial services for securities settlement funds maintained leading position in domestic market, with an increase of 419.9% in custodial fees over the same period last year; Insurance agency services made substantial progress with innovations such as telephone marketing, with a large increase in insurance agency fees. Fee income from "Safe Deal", our custodial service for trading fund, increased by RMB233 million over the same period last year. The Bank took initiatives to develop public finance agency services, and played an active part in the rolling out project of connection among finance, taxation, treasury and bank systems. The Bank continued to be the largest correspondent bank to provide loan funds settlement services to China Development Bank.

- The market share of the assets under custody rose steadily. The market share of the securities investment funds under custody of the Bank rose by 1.26 percentage points to 24.11%, ranking second in the domestic market. The income from custodial business rose by a substantial 190.72% to RMB846 million.

The snowstorm and earthquake imposed certain effects on the normal operation of some of our corporate customers, but the effects of these natural disasters remain local, and are insignificant to the Bank's overall corporate banking business. Besides, we would play an active role in the infrastructure reconstruction after the disasters happened.

In the second half of the year, we will continue to strengthen business structural adjustment in corporate banking, fully implement the credit exit plan, and give more priority to the development of small enterprise sector. Effective measures will be taken to ensure the sustainable development of our corporate intermediary business. Post-lending monitoring will be strengthened to control credit risk.

Personal Banking

The table below sets forth the operating information and changes related to personal banking.

(In millions of RMB, except percentages)	**Six months ended 30 June 2008**	Six months ended 30 June 2007	**Change (%)**
Net interest income	**28,387**	24,290	16.87
Net fee and commission income	**8,062**	7,905	1.99
Other operating income	**63**	1	6,200.00
Operating income	**36,512**	32,196	13.41
Operating expenses	**(22,754)**	(17,893)	27.17
Provisions for impairment losses	**(2,107)**	(1,605)	31.28
Profit before tax	**11,651**	12,698	(8.25)
	As at 30 June 2008	As at 31 December 2007	
Segment assets	**856,908**	786,851	8.90

For the first half of 2008, personal banking realised an operating income of RMB36,512 million, an increase of 13.41% over the same period last year; the profit before tax dropped by 8.25% to RMB11,651 million. The operating expenses of the personal banking increased as a result of branch improvements and acquisitions, and affected by natural disasters the provisions for impairment losses rose, while the interest income and fee and commission income increased moderately.

Increase of personal deposits setting record. As a result of the Bank's various marketing initiatives to attract personal deposits, personal deposits reached RMB2,609,909 million as at 30 June 2008, up by a record RMB293,588 million over the end of last year, laying a solid foundation for the liquidity of the Bank.

Personal loans rose steadily. Personal loans grew by 6.74% to RMB772,613 million, accounting for 21.84% of loans and advances to customers, of which personal residential mortgages rose 7.47% to RMB567,303 million and personal consumer loans grew 5.31% to RMB70,108 million. In face of the strengthened macro-adjustment measures, we will keep a close eye on market movement, and pursue differentiated development strategy by region, product and customer so as to prevent systemic risk in regional markets.

New growth in personal intermediary business. As the Bank put more efforts in innovation and marketing, the debit cards and securities agency service continued to be the biggest revenue contributor, with increasing contribution from new growth drivers such as personal wealth management, insurance agency service and personal gold service. In the first half of the year, the total debit cards issued amounted to 247 million, the spending amount rose by 25.93% over the same period last year, and the revenue realised reached RMB2,234 million, an increase of 36.07% over the same period last year. Our insurance agency business realised revenue of RMB1,651 million, an increase of 246.88% over the same period last year.

Retaining leading position in entrusted housing finance business. We cooperated with public housing funds authorities, explored such new products as provident housing fund plus commercial mortgage relay, and promoted co-brand housing fund cards, provident housing fund electronic services, as well as entrusted withdrawal of provident housing funds and repayment of loans therewith. As at 30 June 2008, provident housing fund deposits totalled RMB324,828 million, an increase of RMB34,965 million compared to the end of 2007, with a market share of 61.00%; the balance of provident housing funds loans amounted to RMB264,264 million, an increase of RMB22,014 million, with a market share of 49.35%.

Special quake relief services. After the devastating earthquake in Wenchuan of Sichuan Province, we quickly set up tent or makeshift bank offices to resume business and provide convenient banking services to the affected customers in the quake regions. We also opened “green channels” to provide financial services for relief purposes, which included express donation and remittance services to the quake regions, as well as new service measures such as free remittance, emergency withdrawal, and cross-region loss reporting.

Snowstorm and earthquake exerted visible effect on existing personal loans in the affected areas, but the proportion of such loans in total personal loans was minimal. We will proactively support the rebuilding of the affected regions by following up on new credit demands with sound business scheme.

In the second half of the year, we will continue to strengthen structural adjustment in personal banking, prevent systemic risks in regional markets, support personal mortgage needs for the first self-owned apartment, and expand second-hand housing market with our improved “Safe House Trading” product, driving the steady and healthy development of our residential mortgage loan business.

Treasury Business

The table below sets forth the operating information and changes related to treasury business.

(In millions of RMB, except percentages)	**Six months ended 30 June 2008**	Six months ended 30 June 2007	**Change (%)**
Net interest income	**20,861**	14,430	44.57
Net fee and commission income	**3,880**	1,264	206.96
Net trading gain	**836**	247	238.46
Net income arising from investment securities	**758**	134	465.67
Other operating income/(loss)	**253**	(3,608)	(107.01)
Operating income	**26,588**	12,467	113.27
Operating expenses	**(1,786)**	(2,161)	(17.35)
Provisions for impairment losses	**(2,269)**	(139)	1,532.37
Profit before tax	**22,533**	10,167	121.63
	As at 30 June 2008	As at 31 December 2007	
Segment assets	**3,059,538**	2,960,545	3.34

For the first half of 2008, treasury business realised an operating income of RMB26,588 million, an increase of 113.27% over the same period last year; profit before tax was RMB22,533 million, with a rise of 121.63%. This was mainly attributable to the rise of yields on portfolios, fast growth of fee and commission income and large reduction in exchange losses.

Financial market business

We carefully studied domestic and overseas macroeconomic environment and inter-bank bond market movements, and adopted a proactive investment portfolio management strategy. In light of the turmoil in international financial market caused by the sub-prime crisis, we put controlling credit risk and ensuring asset safety as a top priority in foreign currency portfolio investment. The yield on portfolio investment for the first half of the year was 3.60%, up 44 basis points over the same period last year.

For the first half of the year, the volume of customer-driven purchases and sales of foreign exchange and foreign exchange trading increased by 65.91% to US$134,443 million, realising revenue of RMB1,721 million with an increase of 70.73%; customer-driven derivative transactions rose by 137.72% to US$9,295 million, realising revenue of RMB588 million with an increase of 287.60%.

During the first half of the year, we issued 171 batches of wealth management products such as “Profit from Exchange”, Initial Public Offering (IPO) trust and corporate bonds, raising RMB196,554 million. In May, we launched “CCB Fortune — Donations” series products with a theme of quake relief, which raised RMB103 million and won public recognition.

Investment banking

The Bank developed its investment banking rapidly, continued to push innovative financial advisory services in areas such as IPO and refinancing, mergers and restructuring, equity investment and project financing, and accelerated efforts to expand debt underwriting business and wealth management products, with revenue of RMB3,203 million, representing an increase of 195.71% over the same period last year.

The Bank underwrote RMB21.8 billion of short-term commercial bills with a market share of 12.46%, and RMB11.5 billion of mid-term commercial papers with a market share of 15.65%.

During the first half of the year, the Bank issued 421 batches of wealth management products with a total amount of RMB289,764 million, an increase of 1,513.56% over the same period last year. In this amount, “Profit from Interest” and “Qiantu Wealth Management” products backed with credit assets were RMB80,641 million, and “Qiantu Wealth Management”, “CCB Fortune” and “Profit from Interest” products based on capital market were RMB209,123 million.

Geographical Segments

In the first half of 2008, profits rose for all regions except western China where some provinces were affected by the earthquake. Due to significant demand on relief and reconstruction loans, the corporate loans extended to central and western China increased by 8.16% and 9.74% respectively. Customer deposits grew steadily for all regions. Overseas business made steady progress, and as at 30 June 2008, total assets of our overseas branches and subsidiaries reached RMB154,156 million with profit before tax of RMB1,709 million for the first half of 2008.

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

(In millions of RMB, except percentages)	**Six months ended 30 June 2008** Amount	%	Six months ended 30 June 2007 Amount	%
Yangtze River Delta	**15,840**	**20.94**	12,273	24.28
Bohai Rim	**10,892**	**14.39**	8,277	16.38
Pearl River Delta	**10,158**	**13.43**	6,744	13.34
Central	**8,369**	**11.06**	6,729	13.31
Western	**6,178**	**8.17**	7,156	14.16
Northeastern	**3,019**	**3.99**	2,203	4.36
Head office	**19,490**	**25.76**	6,217	12.30
Overseas	**1,709**	**2.26**	943	1.87
Profit before tax	**75,655**	**100.00**	50,542	100.00

The table below sets forth the distribution of the Group's loans by geographical segment.

(In millions of RMB, except percentages)	**As at 30 June 2008** Amount	%	As at 31 December 2007 Amount	%
Yangtze River Delta	**878,081**	**24.82**	816,085	24.95
Bohai Rim	**638,658**	**18.05**	602,943	18.43
Western	**582,522**	**16.47**	530,805	16.22
Central	**561,755**	**15.88**	519,388	15.87
Pearl River Delta	**510,245**	**14.42**	473,478	14.47
Northeastern	**212,324**	**6.00**	199,106	6.08
Head office	**28,958**	**0.82**	29,583	0.90
Overseas	**124,994**	**3.54**	100,769	3.08
Loans and advances to customers	**3,537,537**	**100.00**	3,272,157	100.00

The table below sets forth the distribution of the Group's deposits by geographical segment.

	As at 30 June 2008		As at 31 December 2007	
(In millions of RMB, except percentages)	Amount	%	Amount	%
Yangtze River Delta	**1,194,924**	**20.67**	1,101,688	20.67
Bohai Rim	**1,106,971**	**19.15**	1,050,440	19.71
Central	**999,200**	**17.28**	912,844	17.13
Western	**972,286**	**16.82**	870,879	16.34
Pearl River Delta	**888,461**	**15.37**	817,257	15.33
Northeastern	**433,848**	**7.50**	404,778	7.60
Head office	**117,639**	**2.03**	103,861	1.95
Overseas	**68,244**	**1.18**	67,760	1.27
Deposits from customers	**5,781,573**	**100.00**	5,329,507	100.00

Distribution Channels

At the end of June 2008, the Bank had 13,404 branches at various levels in Mainland China, including head office and 38 tier-one branches, 291 tier-two branches, 6,241 sub-branches, 6,816 entities under the sub-branches and 17 banking departments.

Branch transformation rolling out nationwide. A total of 9,207 retail outlets, or 68.69% of all branches have shifted from a transaction and accounting focus to marketing service orientation, with improved sales and service capabilities and greater customer satisfaction and market competitiveness.

Progress in channels building. A total of 2,224 outlets, or 16.59% of all branches went through renovation in the first half of the year, and took on a new look. As of the end of June 2008, the Bank had a total of 26,135 ATMs in operation, an increase of 9.55% over the end of last year, supplementing manned outlets effectively.

Improvements in electronic banking. As of the end of June 2008, we had 92.10 million electronic banking customers, an increase of 21.40 million new customers, or 30.27% over the end of last year; transactions amounted to RMB77.64 trillion, up 143.92% over the same period last year; while the number of transactions rose 49.81% to 1.17 billion; the ratio of transaction volume through e-banking to that through front desk reached 40.19%.

RISK MANAGEMENT

In the first half of 2008, the Bank continued to reinforce risk management system reform, actively adjusted credit structure, and became more sophisticated in its management. The strengthened market risk management mechanism and improved tools and systems for operational risk management also helped to push up the overall risk management level.

Reinforcement of reform of its risk management system. The Bank actively pushed forward centralised risk management in the cities where tier-one branches are located, thereby integrating risk management resources and raising risk control efficiency. The Bank further improved the parallel operation procedures for credit extended to its large and medium-sized corporate customers through which customer relationship managers and risk managers work independently and efficiently. New market risk management policies have also been put in place to establish a market risk management framework with clearly defined roles and responsibilities.

Improvement of risk management tools. The Bank continued to improve economic capital and industry risk limits, with an aim to enhancing the level of risk management of its asset portfolio. The Bank improved its economic capital measurement by adjusting parameters such as probability of default for small enterprises, exposure at default and loss given default for certain products, improving treasury product measurement, and incorporating overseas branches into the overall economic capital management. The industries under risk limit management were further classified into over 50 industries instead of the original over 20 ones, covering more than 80% of the corporate loans; the managing style changed to mandatory risk limits from the original combination of mandatory and guiding limits management; in addition to loan risk limits for industry, economic capital limits have also been employed to control credit extension to different industries.

Acceleration of the implementation of the Basel II Capital Accord. Based on the overall plan for the implementation of Basel II Capital Accord completed in 2007, the Bank defined the major tasks in 2008 for the implementation of this Accord, and set work plans and detailed requirements in terms of policy setting, IT system development and data governance, steadily pushing forward all related work in the implementation of the Accord.

Credit Risk Management

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

In the first half of 2008, the Bank further enhanced its credit risk management by adjusting its credit structure, refining credit policies, implementing 12-grade classification for credit assets, strengthening risk control, optimising its approval processes and stepping up system development.

Adjustment of credit structure and optimisation of resource allocation. In line with China's macro-adjustment policy, the Bank adjusted its credit structure by strictly controlling its involvement with those industries restricted by state policies and regulatory requirements, as well as strengthening the "customer name list" management. The Bank regularly monitored and reported progress in credit structure adjustment, and included the adjustment results as a performance evaluation indicator, guiding all branches to optimise their credit resource allocation.

Refinement of risk management policies. In line with the changing internal and external environment, the Bank improved its credit structure adjustment policies, and fine-tuned industry-specific credit management; it standardised the management of credit extension to fixed assets investment, and set a bottom line for credit risk embedded in off-balance sheet business. The Bank launched 12-grade classification for credit assets, and improved its authorisation system so that authorisations given are in line with the level of business development and risk management capabilities.

Strengthening risk control and disposal of NPLs. The Bank became the first in domestic banks to securitise its NPLs.

Meanwhile, with an incentive and accountability system in place, the Bank continued to strengthen its efforts to mitigate risks from customers with large special mention or non-performing loans and at key branches. New methods of NPL disposal were explored, and a risk control mechanism for customers with large credit facilities was established. These all helped to reduce the NPLs.

Improvement of approval rules and procedures. The Bank continued to refine the operating rules for compliance reviews of corporate customers as well as the rules associated with the approval of personal loans. Approval standards were further unified in order to improve efficiency. Meanwhile, the Bank actively participated in earthquake relief work, and set up "green channels" to approve loans to quake-hit areas. This accelerated approval process ensured the timely provision of loans for quake relief purpose.

Further development of credit risk management information and measurement system development. For the purpose of the implementation of the 12-grade classification for credit asset, a 12-grade classification system was launched and gradually refined. This, together with the Bank's internal rating system, enabled expected loss rates to be measured on a real-time basis. A credit extension monitoring system was launched to provide timely information of adjustments in credit structure. The development of the loan impairment provisioning system (phase II) began, which would improve the impairment provisioning and statistical analysis functions of the system, and enhance the Bank's provisioning management. Various projects related to the internal rating system (phase II) made steady progress and achieved some interim results: scorecard for residential mortgage applications was rolled out to tier-one branches to facilitate the development of the retail lending business.

Concentration of Credit Risk

Key Regulatory Indicators

Key regulatory indicators	**Regulatory standard**	**As at 30 June 2008**	As at 31 December 2007
Ratio of loans to the single largest customer (%)	≤10	**4.23**	4.70
Ratio of loans to the ten largest customers (%)	≤50	**19.69**	19.86

Concentration of Borrowers

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

(In millions of RMB, except percentages)	Industry	As at 30 June 2008 Amount	%
Customer A	Road transport	**20,728**	**0.59**
Customer B	Telecommunications and other information transmission services	**10,500**	**0.30**
Customer C	Road transport	**10,151**	**0.29**
Customer D	Real estate	**8,500**	**0.24**
Customer E	Road transport	**8,358**	**0.24**
Customer F	Road transport	**8,200**	**0.23**
Customer G	Production and supply of electricity and heat	**8,195**	**0.23**
Customer H	Public utility management	**7,911**	**0.22**
Customer I	Road transport	**7,204**	**0.20**
Customer J	Manufacture and processing of ferrous metal	**6,747**	**0.19**
Total		**96,494**	**2.73**

Liquidity Risk Management

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

In the first half of 2008, the PBC raised the statutory deposit reserve rate for six times, with three percentage points in total, which imposed pressure on liquidity management of commercial banks. The Bank succeeded in withstanding the pressure by improving related rules, making overall preparations in advance and strengthening daily fund management. The surplus reserve rate was kept at a reasonable level and the normal payment and settlement of the Bank was ensured.

To minimise liquidity risk and maintain a reasonable level of reserve, the Bank formulated the "Scheme of Limits on the Inflow of Funds from the RMB Portfolios in the Bond and Money Markets 2008". Under this scheme, the Bank made a conservative forecast on the source of funding, and fully anticipated fund utilisation on a prudent basis. Quarterly and annual minimum limits for the inflow of funds were set so as to secure inflow of funds in a stable and reliable manner.

The Bank has set up a liquid portfolio, which includes reverse repos and assets such as central bank bills, treasury bills and bonds issued by financial institutions maturing within one year, and managed the portfolio on a daily basis based on fund positions. The highly liquid assets not only bring returns to the Bank with balanced risk and reward, but also provide it with a sizable liquid reserve.

The Bank has established contingency plans for various levels of liquidity risk, which specify events that may trigger crises, as well as major duties and actions of different departments in the event of crises, with an aim to resolving any potential liquidity risk promptly and effectively.

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)	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Undated	Total
(Short)/long position as at 30 June 2008	**(3,750,944)**	**(177,488)**	**(73,614)**	**83,708**	**1,910,321**	**1,344,796**	**1,118,619**	**455,398**
(Short)/long position as at 31 December 2007	**(3,765,450)**	**61,104**	**(31,818)**	**201,354**	**1,735,163**	**1,315,024**	**906,904**	**422,281**

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 2008, the accumulated gap of various maturities of the Group was RMB455,398 million, an increase of RMB33,117 million compared to the end of last year, with a larger negative gap for short term, and a larger positive gap for mid-to-long term. The negative gap for repayable on demand totalled RMB3,750,944 million, RMB14,506 million lower than at the end of last year. The reduction was mainly because the deposits from banks and non-bank financial institutions dropped and the growth of demand deposits from customers slowed down due to factors such as the fluctuations of domestic capital market.

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, stock prices and other prices.

In the first half of 2008, the Bank strived to refine its market risk management system. It specified procedures for identification, measurement, monitoring, control and reporting of market risk, set requirements related to capital management and internal control, and experienced steady improvement in its market risk management level.

The Bank reviewed its market risk limits by improving the classification method and increasing the number of categories. This helped to develop a multi-dimensional risk control and early warning system. The system's role of guidance and ease of use both improved, and became more sensitive to business movements and more effective in controlling risk.

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 the potential losses on positions due to shifts in interest rates, exchange rates and prices. The Bank calculates the VaR on foreign currency portfolio on a daily basis and the VaR on RMB portfolio at least once a week (at 99% confidence level and one-day holding period). At the balance sheet date and the respective period, VaRs of the Bank's trading portfolio and available-for-sale debt securities are as follows:

	For the six months ended 30 June 2008				For the six months ended 30 June 2007			
(In millions of RMB)	**Period-end**	**Average**	**Maximum**	**Minimum**	Period-end	Average	Maximum	Minimum
RMB trading portfolio	**27**	**16**	**27**	**5**	2	3	4	2
RMB available-for-sale debt securities	**466**	**440**	**532**	**287**	218	178	218	93
Foreign currency trading portfolio	**196**	**202**	**232**	**127**	31	56	97	31
Foreign currency available-for-sale debt securities	**475**	**554**	**676**	**465**	666	473	666	381

Interest Rate Risk Management

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

In the first half of 2008, the Bank formulated measurement rules for repricing gap and sensitivity of net interest income, and specified the system, methods, frequency and duties of measurement as well as the reporting procedures. In order to grasp the trend of market rates and respond to market contingencies in a timely manner, the Bank set up a price monitoring and consultation system with regular communication and discussions between the business departments at head office and typical branches, enhancing its market response speed and management efficiency.

The Bank regularly measures the interest rate sensitive repricing gap based on an asset and liability management information system, and assesses the impact of interest rate changes upon its net interest income and economic value under various scenarios of interest rate movements, and conducts stress testing on a regular basis. The analysis of the expected next repricing dates (or maturity dates whichever are earlier) of the Group's assets and liabilities as at the balance sheet date is set below:

(In millions of RMB)	Total	Non-interest-bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Asset-liability gap as at 30 June 2008	**455,398**	**33,508**	**(2,342,912)**	**1,645,459**	**750,611**	**368,732**
Asset-liability gap as at 31 December 2007	422,281	45,016	(1,846,674)	1,135,439	658,492	430,008

The Bank has set up a regular interest rate risk reporting mechanism as well as an interest rate risk monitoring system. Derivatives such as interest rate swaps and options were used to hedge interest rate risk associated with the foreign currency business. As interest rate hedging tools have not been adequately developed in the RMB market, the Bank manages RMB interest rate risk largely by adjusting business volumes and maturity profiles.

Foreign Exchange Risk Management

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

The Bank mitigates structural exchange exposure by matching assets and liabilities based on the currency involved. The amounts and periods of lending and borrowing are matched, as much as possible, on a currency-by-currency basis. Open positions are hedged with instruments such as spot and forward contracts as well as swaps and options. The Bank controls the trading exchange exposure from customer-driven and proprietary foreign exchange purchases and sales, foreign exchange trading and foreign exchange derivative business by setting trading limits.

Based on the asset and liability management information system, the Bank measures and monitors the structural exposure on a daily basis. In the first half of 2008, the Bank improved its exchange risk measurement system, enhancing the granularity and accuracy of risk measurement. It combined product analysis, internal accounting with exposure measurement, and refined the methodology of measurement. In the face of accelerated appreciation of RMB, the Bank steadily reduced its exchange exposure, which dropped by around 40% compared to the end of last year.

Operational Risk Management

Operational risk is the potential of loss resulting from inadequate or flawed internal processes, people and systems, or external events.

In the first half of 2008, the Bank continued to improve its operational risk management with the following new initiatives:

- *Developing operational risk management tools*. A consulting project for the operational risk management information system has been launched, which aims to establish a unified operational risk management platform across the Bank to support operational risk management and decision-making.

- *Gradually pushing forward self-assessment of operational risk and internal control to identify and assess key risks and control measures*. This promotes continued development and improvement of the Bank's processes, systems, and services.

- *Enhancing business continuity management*. Contingency plans for all major production systems have been formulated to strengthen contingency management. Medium to long-term planning for business continuity management are underway to establish an improved continuity monitoring targets.

- *Strengthening supervision of major risk points at branch level*. To prevent significant risk events, the Bank actively manages major risk points at its branches with timely adjustments to monitoring targets.

- *Continuing to refine the banking process*. The Bank combed, integrated and optimised the core business process, and set to create a business process operating manual in order to improve the process management system of products and services, and facilitate steady and healthy business development.

Internal Audit

In the first half of 2008, the Bank continued to improve its vertical internal audit system with an aim to enhancing its level of centralisation, professionalism, standardisation and informationisation in internal audits.

- The Bank conducted 14 systematic audit projects including inspection of fundamental accounting management and operating management, inspection of implementation of credit entry and exit policies, special audit on resources integration of information technology infrastructures at tier-one branches, audit on and monitoring of debt business, inspection of pricing management for major products and audit assessment of correction system and its effects.

- The Bank fully promoted the specialisation of internal audit to facilitate business development and raise the value of internal audit. The Bank established an internal audit system comprising of 17 specialisations, which covers various business types. It specified the direction of professional development for each audit unit, and guided each audit unit to specialise in one or more specific areas so as to provide expertise and guidance to the whole bank as a source of information as well as a research and consultation centre. A reservoir of audit professionals was also established with intensified professional trainings. An audit knowledge base was set up, providing a basic platform for sharing professional information and experience.

- Based on the auditing evaluation on internal control at tier-one branches in 2007, the Bank set to optimise its internal control auditing evaluation system.

- The Bank continued to improve the off-site auditing system and audit management information system, which were developed by itself, to maintain its advantage in information application in internal audits, and ensure full coverage and timely monitoring of business lines by the internal audit function, as well as audit informationisation in terms of operation process management, results management and knowledge management.

PROSPECTS

In the second half of 2008, global economic growth is expected to continue to slow. While China's overall economic and financial conditions are expected to remain stable, inflationary pressure will stay high, with increased uncertainty in the development of capital and property markets.

This situation presents operational opportunities and challenges for commercial banks. On the one hand, the rapid growth of the domestic economy and steady progress of reform in the financial system provide a favourable and stable environment for business development. The higher interest rates and lower income tax rate are also positive for profit growth. On the other hand, commercial banks face a number of challenges: Under the restrictive monetary policy, tightening credit will adversely affect banks' profit growth, and rising deposit reserve rate will put more pressure on banks' liquidity management. Besides, the credit risks with industries subject to the macro-adjustments and certain personal borrowers may increase; the snowstorm and earthquake may cause additional NPLs.

The Group will further analyse the macroeconomic environment, study new issues arising from the market movements, adjust its operational strategy timely, overcome any unfavourable impact of external factors on its operations and strive to realise its operating targets for 2008.

First, the Group will optimise adjustment on its credit asset structure to ensure the orderly and healthy development for its competitive products, key areas and strategic businesses. It will also selectively enter some emerging industries that offer huge potential for development.

Second, it will rigorously expand its debt business by attracting stable and cheap funding sources to ensure ample liquidity and stable operations.

Third, in line with the general trend of the national economy's structural adjustment, the Group will strengthen its efforts to adjust its business structure. It will solidify its achievements in innovative businesses while retaining its competitive edge in traditional commercial banking areas so as to enhance the competitiveness of the entire group.

Fourth, the Group will actively foster new growth areas, pursue product innovation, and develop emerging businesses in connection with small and medium-sized enterprises and personal customers, consumer finance, intermediary business as well as overseas markets.

Fifth, it will promote comprehensive operations by tapping into new business areas to deliver diverse services.

Sixth, the Group will advance cooperation with its strategic investors to ensure the orderly implementation of various projects as planned.

Seventh, it will actively participate in post-earthquake reconstruction efforts, providing a variety of financial services and bringing into full play the Bank's strength in infrastructure and housing construction.

Eighth, the Group will aim for excellence in services during Olympics period by ensuring secure systems, stable operations and efficient services.

Changes in Share Capital and Particulars of Shareholders

CHANGES IN SHARES

Unit: share

	1 January 2008		Increase/(Decrease) during the reporting period					30 June 2008	
	Number of shares	%	Issuance of additional shares	Bonus issue	Shares converted from capital reserve	Others	Sub-total	Number of shares	%
(I) Shares subject to selling restrictions									
1. State-owned shares[1]	138,150,047,904	59.12	–	–	–	–	–	138,150,047,904	59.12
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]	24,085,845,721	10.31	–	–	–	–	–	24,085,845,721	10.31
Comprising:									
Shares held by foreign legal persons	–	–	–	–	–	–	–	–	–
Shares held by foreign natural persons	–	–	–	–	–	–	–	–	–
(II) Shares not subject to selling restrictions									
1. RMB ordinary shares	9,000,000,000	3.85	–	–	–	–	–	9,000,000,000	3.85
2. Domestically listed foreign investment shares	–	–	–	–	–	–	–	–	–
3. Overseas listed foreign investment shares	34,685,001,375	14.84	–	–	–	169,600,000	169,600,000	34,854,601,375	14.91
4. Others[4]	7,075,939,000	3.03	–	–	–	(169,600,000)	(169,600,000)	6,906,339,000	2.96
(III) Total number of shares	233,689,084,000	100.00	–	–	–	–	–	233,689,084,000	100.00

1. 138,150,047,904 H-shares of the Bank held by Huijin.

2. 20,692,250,000 H-shares of the Bank held by Jianyin.

3. Bank of America and Fullerton Financial, the foreign strategic investors of the Bank, held 19,132,974,346 and 4,952,871,375 H-shares of the Bank respectively that are subject to selling restrictions.

4. The three promoters of the Bank, State Grid, Baosteel Group and Yangtze Power held 2,875,939,000, 3,000,000,000 and 1,200,000,000 H-shares of the Bank respectively on 31 December 2007; and 2,706,339,000, 3,000,000,000 and 1,200,000,000 H-shares of the Bank respectively on 30 June 2008.

5. In May 2008, the Bank was notified by Bank of America that it would purchase 6,000,000,000 H-shares of the Bank from Huijin in accordance with the *Share Purchase and Options Agreement* signed with Huijin on 17 June 2005. The registration of the transfer of the related 6,000,000,000 H-shares of the Bank was completed on July 2008. Unless under exceptional circumstances, without the written consent of the Bank, the 6,000,000,000 H-shares of the Bank purchased by Bank of America pursuant to the exercise of the option shall not be transferred until 29 August 2011. Upon the exercise of this option, among the Bank's shares subject to selling restrictions, the state-owned shareholders and foreign shareholders held 132,150,047,904 and 30,085,845,721 shares respectively.

NUMBER OF SHAREHOLDERS AND PARTICULARS OF SHAREHOLDINGS

At the end of the reporting period, the Bank had a total of 1,608,351 shareholders, of which 54,436 were holders of H-shares and 1,553,915 were holders of A-shares.

Unit: share

Total number of shareholders 1,608,351 (Total number of registered holders of A-shares and H-shares as at 30 June 2008)

Particulars of shareholding of the top ten shareholders (The data are from shareholders' register as at 30 June 2008)

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	59.12	138,150,047,904 (H-shares)	138,150,047,904	None
HKSCC Nominees Limited	Foreign legal person	12.58	29,397,887,599 (H-shares)	—	Unknown
Jianyin	State-owned legal person	8.85	20,692,250,000 (H-shares)	20,692,250,000	None
Bank of America	Foreign legal person	8.19	19,132,974,346 (H-shares)	19,132,974,346	None
Fullerton Financial	Foreign legal person	5.65	13,207,316,750 (H-shares)	4,952,871,375	None
Baosteel Group	State-owned legal person	1.28	3,000,000,000 (H-shares)	—	None
Reca Investment Limited	Foreign legal person	0.34	800,000,000 (H-shares)	—	None
China Life Insurance Company Limited — Participating — Individual participating — 005L — FH002 SH	Domestic non-state-owned legal person	0.10	233,696,000 (A-shares)	—	None
Bank of Communications — Bosera Emerging Growth Stock Fund	Domestic non-state-owned legal person	0.08	177,751,201 (A-shares)	—	None
China Life Insurance (Group) Company — Traditional — Ordinary insurance products	Domestic non-state-owned legal person	0.07	157,597,200 (A-shares)	—	None

1. As at 30 June 2008, State Grid and Yangtze Power held 2,706,339,000 and 1,200,000,000 H-shares of the Bank respectively, under the name of HKSCC Nominees Limited.

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

3. Upon the completion of the exercise of the option with respect to the 6,000,000,000 H-shares of the Bank transferred to Bank of America from Huijin, the numbers of shares of the Bank directly held by Huijin and Bank of America were 132,150,047,904 and 25,132,974,346 respectively.

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

(The data are from shareholders' register as at 30 June 2008)

Name of shareholder	Shares not subject to selling restrictions	Type of share
HKSCC Nominees Limited	29,397,887,599	H-share
Fullerton Financial	8,254,445,375	H-share
Baosteel Group	3,000,000,000	H-share
Reca Investment Limited	800,000,000	H-share
China Life Insurance Company Limited — Participating — Individual participating — 005L — FH002 SH	233,696,000	A-share
Bank of Communications — Bosera Emerging Growth Stock Fund	177,751,201	A-share
China Life Insurance (Group) Company — Traditional — Ordinary insurance products	157,597,200	A-share
Industrial and Commercial Bank of China — Bosera Selected Stock Fund	147,922,618	A-share
China Life Insurance Company Limited — Traditional — Ordinary insurance products — 005L — CT001 SH	129,986,850	A-share
Bank of Communications — E Fund 50 Index Fund	111,729,436	A-share

1. China Life Insurance Company Limited is a subsidiary controlled by China Life Insurance (Group) Company. Some of the shareholders mentioned above were managed by the same fund manager. 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

There have been no changes of substantial shareholders and actual controlling parties of the Bank during the reporting period.

MATERIAL INTERESTS AND SHORT POSITIONS

As at 30 June 2008, the interests or short positions held by substantial shareholders of the Bank in the 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:

	Number of H-shares held			Percent	Percent
Name	**Held directly**	**Held indirectly**	**Total holding**	**of issued H-shares (%)**	**of total issued shares (%)**
Huijin	138,150,047,904	20,692,250,000	158,842,297,904	70.69	67.97
Jianyin	20,692,250,000	—	20,692,250,000	9.21	8.85
Bank of America	19,132,974,346	—	19,132,974,346	8.52	8.19
Temasek	—	13,576,203,750	13,576,203,750	6.04	5.81
Fullerton Financial	13,207,316,750	—	13,207,316,750	5.88	5.65

1. As Jianyin is a wholly-owned subsidiary of Huijin, in accordance with the *Securities and Futures Ordinance* of Hong Kong, the interests held directly by Jianyin are deemed to be indirect interests of Huijin.

2. Bank of America holds options to acquire H-shares of the Bank from Huijin, such number of H-shares being equal to 19.90% of the Bank's H-shares issued and outstanding by the closing date of the Bank's global offering in October 2005 (excluding any shares of the Bank already held by Bank of America as at the date of the exercise of the option), which are in the form of physically settled unlisted derivatives. Upon the completion of the exercise of the option with respect to the 6,000,000,000 H-shares of the Bank transferred to Bank of America from Huijin, the numbers of shares of the Bank directly held by Huijin and Bank of America were 132,150,047,904 and 25,132,974,346 respectively.

3. As Fullerton Financial is a wholly-owned subsidiary of Temasek, in accordance with the *Securities and Futures Ordinance* of Hong Kong, the interests held directly by Fullerton Financial are deemed to be indirect interests of Temasek.

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, Mr. Luo Zhefu and Ms. Xin Shusen; 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 Ms. Ning Liming; and external supervisors: Mr. Guo Feng and Mr. Dai Deming.

Senior Management of the Bank

Senior management of the Bank include Mr. Zhang Jianguo, Mr. Luo Zhefu, Ms. Xin Shusen, Mr. Chen Zuofu, Mr. Fan Yifei, Mr. Zhu Xiaohuang, 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 2007 annual general meeting of the Bank and approval by CBRC, Ms. Xin Shusen has become an executive director of the Bank as of 21 July 2008.

Upon appointment at the 10th meeting of the second board of directors of the Bank and approval by CBRC, Mr. Zhu Xiaohuang has become a vice president of the Bank as of 17 June 2008.

Mr. Zhao Lin resigned from the post of executive director and vice president of the Bank on 6 May 2008.

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

As at 30 June 2008, 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. Having specifically enquired with its directors and supervisors, the Bank confirms that all directors and supervisors have, during the six months ended 30 June 2008, complied with the provisions of this code of practice.

EMPLOYEES OF THE BANK

At the end of June 2008, the Bank had 295,012 staff members, of which 107,893 or 36.57% have academic qualifications of bachelor's degree or above. In addition, the Bank had 44,329 workers dispatched by labour leasing companies, and the number of retired employees for whom the Bank assumes expenses was 30,194.

CORPORATE GOVERNANCE

The Bank is committed to maintaining a high level of corporate governance. During the reporting period, the Bank continued to improve its governance structure, and formulated and perfected rules related to corporate governance, based on its corporate governance practices and strictly in accordance with the provisions of the *Company Law of the People's Republic of China, Law of the People's Republic of China on Commercial Banks, Listing Rules of Shanghai Stock Exchange,* Listing Rules of Hong Kong Stock Exchange and other laws and regulations. The Bank formulated procedures for the administration of the Bank's shares held by directors, supervisors and senior management and changes thereof, annual report work procedures for independent directors, measures of the audit committee of the Board for performance evaluation of internal audit work, and amended the measures for the management of connected transactions, thereby further improving the corporate governance. The Bank continued to strengthen its internal control system, and its internal control rules were effectively implemented.

Throughout the six months ended 30 June 2008, 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.

PLANS FOR PROFIT DISTRIBUTION, CONVERSION OF CAPITAL RESERVES TO CAPITAL OR NEW SHARE ISSUANCE DURING THE REPORTING PERIOD

As approved by the 2007 annual general meeting of the Bank held on 12 June 2008, the Bank distributed the 2007 final dividends of RMB0.065 per share (including tax) on 8 July 2008 to the shareholders registered as of 23 June 2008.

The board of directors has been authorised at the 2007 annual general meeting of the Bank to determine the 2008 plan for interim profit distribution, with the 2008 interim cash dividend being 45% of the profit after tax for the first half of 2008. In light of the *Enterprise Income Tax Law of the People's Republic of China* which came into effect on 1 January 2008, the Bank is deliberating on detailed operational issues that might be involved in profit distribution. The board of directors of the Bank will determine, declare and distribute 2008 interim dividend based on the authorisation given at the 2007 annual general meeting as appropriate.

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 A-share IPO. As of 30 June 2008, 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 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

During the reporting period, the Bank did not have any material projects invested with funds other than the proceeds from the IPO.

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

Implementation Measures for the Management of Connected Transactions of China Construction Bank Corporation (Revised) was approved at the 8th meeting of the second board of directors held on 11 April 2008.

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

DONATIONS

The 10th meeting of the second board of directors of the Bank has considered and approved "the Proposal on Donation to the Earthquake-stricken Areas in Sichuan", and has resolved to donate RMB20 million to the people's government of Sichuan province for the rescue and reconstruction work in the earthquake-stricken area. The 14th meeting of the second board of directors of the Bank has resolved to donate another RMB20 million to the earthquake-stricken areas in Sichuan. In addition, the Bank's employees made cash donations of RMB136 million to the earthquake-stricken areas.

PROGRESS OF IMPLEMENTATION OF EMPLOYEE STOCK INCENTIVE PLAN

During the reporting period, the Bank did not implement a new round of employee stock incentive plan. At the end of the reporting period, the total number of the Bank's H-shares managed by the trustee under the employee stock incentive plan was still 800 million, which accounts for 0.34% of the Bank's total number of shares. There are 270,035 employees of the Bank participating in this plan.

Mr. Chen Caihong, secretary to the Board, indirectly holds 19,417 H-shares of the Bank through participating in the employee stock ownership plan before assuming the office of the secretary to the Board. Except for this, none of the directors, supervisors and senior management of the Bank holds any securities 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 executives had been subject to no inspections, administrative penalties or criticisms by CSRC, or public censures by stock exchanges.

ADDITIONAL UNDERTAKINGS IN RESPECT OF SELLING RESTRICTIONS GIVEN BY SHAREHOLDERS HOLDING 5% OR MORE OF THE SHARES OF THE BANK

During the reporting period, no shareholder who holds 5% or more of the Bank's shares has given additional undertakings in respect of selling restrictions.

AUDIT OF HALF-YEAR FINANCIAL REPORT

The 2008 half-year financial report of the Bank prepared in accordance with PRC GAAP has been audited by KPMG Huazhen (the signing auditors are Ms. Song Chenyang and Mr. Li Li), and that prepared in accordance with IFRS has been audited by KPMG, and standard unqualified audit reports have been issued.

In addition, the audit committee of the Board of the Bank has reviewed the half-year financial report.

OTHER SHARES HELD BY THE BANK

Top ten investments in securities

Number	Stock code	Stock abbreviation	Shares held at period-end	Initial investment amount (In RMB)	Period-end carrying amount (In RMB)	Beginning carrying amount (In RMB)	Accounting item	Sources of shares
1	601600	CHALCO	709,773,136	883,586,630	9,255,441,693	25,168,555,403	Available-for-sale equity investments	Investment held through debt equity swap
2	000578	QINGHAI SALT LAKE	181,960,736	137,272,834	4,899,088,922	137,273,000	Available-for-sale equity investments	Investment held through debt equity swap
3	183 (HK)	CIFH	168,599,268	111,892,767	881,866,777	772,161,730	Available-for-sale equity investments	Acquisition
4	600068	G.C.L.	133,445,624	232,566,694	759,972,829	1,515,942,289	Available-for-sale equity investments	Investment held through debt equity swap
5	600462	Y. S. B. P.	50,600,000	41,248,000	179,841,107	358,280,857	Available-for-sale equity investments	Investment held through debt equity swap
6	1893 (HK)	Sinoma	33,333,000	131,861,276	173,177,808	296,176,843	Trading investments	Indirectly held through an overseas subsidiary
7	000001	SDB	8,571,414	31,300,157	165,685,433	303,661,823	Available-for-sale equity investments	Establishment of investment, exercise of share options
8	151 (HK)	WANT WANT CHINA[1]	51,894,000	136,857,549	136,857,549		Trading investments	Indirectly held through an overseas subsidiary
9	600984	SCMC	24,347,042	44,050,000	109,955,671	318,587,329	Available-for-sale equity investments	Investment held through debt equity swap
10	395 (HK)	China Zirconium	9,300,000	93,042,247	91,565,385	123,646,486	Trading investments	Indirectly held through an overseas subsidiary
Total				1,843,678,154	16,653,453,174	28,994,285,760		

1. Investment made on 29 February 2008 through participating in international placing.

Interests in non-listed financial institutions

Name	Initial investment amount (In RMB)	Shares held	Percent of shareholdings (%)	Period-end carrying amount (In 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 Financial 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]		300,400,000	75.10	
QBE Hongkong and Shanghai Insurance Limited	9,151,884	19,939,016	25.50	100,331,277
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	35,000,000	3.50	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 auditor's report to the shareholders of China Construction Bank Corporation
(a joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of China Construction Bank Corporation (the "Bank") and its subsidiaries (collectively the "Group") set out on pages 58 to 192, which comprise the consolidated and Bank balance sheets as at 30 June 2008, and the consolidated income statement, the consolidated and Bank statements of changes in equity, the consolidated cash flow statement for the six months period then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 30 June 2008 and of the Group's profit and cash flows for the six months period then ended in accordance with International Financial Reporting Standards.

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

22 August 2008

Half-Year Financial Report

Consolidated Income Statement

For the six months ended 30 June 2008
(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June 2008	2007
Interest income		**172,193**	130,897
Interest expense		**(61,113)**	(41,684)
Net interest income	3	**111,080**	89,213
Fee and commission income		**20,926**	13,271
Fee and commission expense		**(758)**	(611)
Net fee and commission income	4	**20,168**	12,660
Net trading gain	5	**1,292**	247
Dividend income	6	**75**	76
Net income arising from investment securities	7	**1,646**	549
Other operating income/(loss), net	8	**1,475**	(2,972)
Operating income		**135,736**	99,773
Operating expenses	9	**(46,193)**	(37,275)
		89,543	62,498
Provisions for impairment losses on			
— loans and advances to customers		**(11,458)**	(11,648)
— others		**(2,448)**	(321)
Impairment losses	10	**(13,906)**	(11,969)
Share of profit in associate and jointly controlled entity		**18**	13
Profit before tax		**75,655**	50,542
Income tax	11	**(16,963)**	(16,287)
Net profit		**58,692**	34,255
Attributable to:			
Shareholders of the Bank		**58,667**	34,221
Minority interests		**25**	34
Net profit		**58,692**	34,255
Cash dividends payable to shareholders of the Bank			
Interim cash dividend attributable to and approved during the six months ended 30 June 2007	32(b)	**–**	15,054
Special cash dividend approved after the balance sheet date	32(b)	**–**	16,339
		–	31,393
Basic and diluted earnings per share (in RMB)	12	**0.25**	0.15

The notes on pages 65 to 192 form part of these financial statements.

Consolidated Balance Sheet

As at 30 June 2008
(Expressed in millions of Renminbi unless otherwise stated)

	Note	As at 30 June 2008	As at 31 December 2007
Assets			
Cash and balances with central banks	13	**1,083,136**	967,374
Amounts due from banks and non-bank financial institutions	14	**125,201**	102,393
Trading investments	15	**76,495**	29,819
Positive fair value of derivatives	38(d)	**27,821**	14,632
Loans and advances to customers	16	**3,445,965**	3,183,229
Investment securities	17	**2,156,255**	2,171,991
Interests in associate and jointly controlled entity	19	**1,722**	1,099
Property and equipment	20	**58,341**	58,287
Goodwill	21	**1,525**	1,624
Deferred tax assets	22	**2,486**	35
Other assets	23	**78,759**	67,694
Total assets		**7,057,706**	6,598,177
Liabilities			
Amounts due to central banks	24	**1,362**	50,973
Amounts due to banks and non-bank financial institutions	25	**601,073**	606,061
Trading liabilities	26	**7,519**	10,809
Negative fair value of derivatives	38(d)	**15,824**	7,952
Deposits from customers	27	**5,781,573**	5,329,507
Certificates of deposit issued		**11,456**	9,284
Current tax liabilities		**16,792**	28,022
Deferred tax liabilities	22	**5**	771
Other liabilities and provisions	28	**126,771**	92,589
Subordinated bonds issued	30	**39,933**	39,928
Total liabilities		**6,602,308**	6,175,896
Equity			
Share capital	31(a)	**233,689**	233,689
Reserves	31	**220,341**	187,288
Total equity attributable to shareholders of the Bank		**454,030**	420,977
Minority interests		**1,368**	1,304
Total equity		**455,398**	422,281
Total equity and liabilities		**7,057,706**	6,598,177

Approved and authorised for issue by the board of directors on 22 August 2008.

Zhang Jianguo	**Tse Hau Yin, Aloysius**	**Wong Kai-Man**
Vice chairman, executive director, and president	*Independent non-executive director*	*Independent non-executive director*

The notes on pages 65 to 192 form part of these financial statements.

Balance Sheet of the Bank

As at 30 June 2008
(Expressed in millions of Renminbi unless otherwise stated)

	Note	**As at 30 June 2008**	As at 31 December 2007
Assets			
Cash and balances with central banks	13	**1,082,864**	967,106
Amounts due from banks and non-bank financial institutions	14	**119,535**	96,281
Trading investments	15	**68,461**	23,528
Positive fair value of derivatives	38(d)	**27,232**	14,296
Loans and advances to customers	16	**3,406,631**	3,151,289
Investment securities	17	**2,153,918**	2,169,057
Investments in subsidiaries	18	**4,193**	4,006
Property and equipment	20	**58,129**	58,094
Deferred tax assets	22	**2,671**	33
Amounts due from subsidiaries		**46,845**	31,530
Other assets	23	**77,767**	66,619
Total assets		**7,048,246**	6,581,839
Liabilities			
Amounts due to central banks	24	**1,362**	50,973
Amounts due to banks and non-bank financial institutions	25	**598,942**	605,076
Trading liabilities	26	**7,519**	10,809
Amounts due to subsidiaries		**32,815**	23,083
Negative fair value of derivatives	38(d)	**15,261**	7,609
Deposits from customers	27	**5,748,974**	5,296,988
Certificates of deposit issued		**8,861**	8,347
Current tax liabilities		**16,611**	27,878
Deferred tax liabilities	22	**—**	602
Other liabilities and provisions	28	**125,711**	91,029
Subordinated bonds issued	30	**39,933**	39,928
Total liabilities		**6,595,989**	6,162,322
Equity			
Share capital	31(a)	**233,689**	233,689
Reserves	31	**218,568**	185,828
Total equity		**452,257**	419,517
Total equity and liabilities		**7,048,246**	6,581,839

Approved and authorised for issue by the board of directors on 22 August 2008.

Zhang Jianguo	**Tse Hau Yin, Aloysius**	**Wong Kai-Man**
Vice chairman, executive director, and president	*Independent non-executive director*	*Independent non-executive director*

The notes on pages 65 to 192 form part of these financial statements.

Consolidated Statement of Changes in Total Equity

For the six months ended 30 June 2008
(Expressed in millions of Renminbi unless otherwise stated)

	Note	Share capital	Capital reserve	Surplus reserve	Investment revaluation reserve	General reserve	Exchange reserve	Retained earnings	Minority interests	Total equity
As at 1 January 2008		**233,689**	**90,241**	**17,845**	**16,408**	**31,548**	**(918)**	**32,164**	**1,304**	**422,281**
Net profit for the six months		**–**	**–**	**–**	**–**	**–**	**–**	**58,667**	**25**	**58,692**
Net change in fair value of available-for-sale investments	31(d)	**–**	**–**	**–**	**(10,981)**	**–**	**–**	**–**	**–**	**(10,981)**
Net gain realised on disposal of available-for-sale investments	31(d)	**–**	**–**	**–**	**(237)**	**–**	**–**	**–**	**–**	**(237)**
Amortisation of changes in fair value of investments reclassified from available-for-sale to held-to-maturity	31(d)	**–**	**–**	**–**	**359**	**–**	**–**	**–**	**–**	**359**
Impairment losses of available-for-sale investments	31(d)	**–**	**–**	**–**	**1,524**	**–**	**–**	**–**	**–**	**1,524**
Appropriations to surplus reserve and general reserve	32(a)	**–**	**–**	**–**	**–**	**15,025**	**–**	**(15,025)**	**–**	**–**
Exchange differences	31(f)	**–**	**–**	**–**	**–**	**–**	**(1,089)**	**–**	**–**	**(1,089)**
Capital injection of minority interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**62**	**62**
Dividends declared during the period		**–**	**–**	**–**	**–**	**–**	**–**	**(15,190)**	**(23)**	**(15,213)**
As at 30 June 2008		**233,689**	**90,241**	**17,845**	**7,073**	**46,573**	**(2,007)**	**60,616**	**1,368**	**455,398**
As at 1 January 2007		224,689	42,091	11,133	(1,226)	10,343	(13)	43,092	95	330,204
Net profit for the six months		–	–	–	–	–	–	34,221	34	34,255
Net change in fair value of available-for-sale investments	31(d)	–	–	–	(2,602)	–	–	–	–	(2,602)
Net loss realised on disposal of available-for-sale investments	31(d)	–	–	–	85	–	–	–	–	85
Effect of change in tax rate	22(b)	–	–	–	(145)	–	–	–	–	(145)
Appropriations to surplus reserve and general reserve	32(a)	–	–	3,355	–	21,022	–	(24,377)	–	–
Exchange differences	31(f)	–	–	–	–	–	(334)	–	–	(334)
Dividends declared during the period		–	–	–	–	–	–	(35,725)	–	(35,725)
As at 30 June 2007		224,689	42,091	14,488	(3,888)	31,365	(347)	17,211	129	325,738
As at 1 January 2007		224,689	42,091	11,133	(1,226)	10,343	(13)	43,092	95	330,204
Net profit for the year		–	–	–	–	–	–	69,053	89	69,142
Net change in fair value of available-for-sale investments	31(d)	–	–	–	15,899	–	–	–	–	15,899
Net loss realised on disposal of available-for-sale investments	31(d)	–	–	–	53	–	–	–	–	53
Amortisation of changes in fair value of investments reclassified from available-for-sale to held-to-maturity	31(d)	–	–	–	454	–	–	–	–	454
Impairment losses of available-for-sale investments	31(d)	–	–	–	1,373	–	–	–	–	1,373
Effect of change in tax rate	22(b)	–	–	–	(145)	–	–	–	–	(145)
Shares issued	31(a), 31(b)	9,000	48,119	–	–	–	–	–	–	57,119
Minority interests of a new subsidiary	33(b)	–	–	–	–	–	–	–	1,120	1,120
Appropriations to surplus reserve and general reserve	32(a)	–	–	6,712	–	21,205	–	(27,917)	–	–
Exchange differences	31(f)	–	–	–	–	–	(905)	–	–	(905)
Others		–	31	–	–	–	–	–	–	31
Dividends declared during the year		–	–	–	–	–	–	(52,064)	–	(52,064)
As at 31 December 2007		233,689	90,241	17,845	16,408	31,548	(918)	32,164	1,304	422,281

The notes on pages 65 to 192 form part of these financial statements.

Statement of Changes in Equity of the Bank

For the six months ended 30 June 2008
(Expressed in millions of Renminbi unless otherwise stated)

	Note	Share capital	Capital reserve	Surplus reserve	Investment revaluation reserve	General reserve	Exchange reserve	Retained earnings	Total equity
As at 1 January 2008		**233,689**	**90,241**	**17,845**	**16,388**	**31,200**	**(36)**	**30,190**	**419,517**
Net profit for the six months		**–**	**–**	**–**	**–**	**–**	**–**	**57,366**	**57,366**
Net change in fair value of available-for-sale investments	31(d)	**–**	**–**	**–**	**(10,881)**	**–**	**–**	**–**	**(10,881)**
Net gain realised on disposal of available-for-sale investments	31(d)	**–**	**–**	**–**	**(237)**	**–**	**–**	**–**	**(237)**
Amortisation of changes in fair value of investments reclassified from available-for-sale to held-to-maturity	31(d)	**–**	**–**	**–**	**359**	**–**	**–**	**–**	**359**
Impairment losses of available-for-sale investments	31(d)	**–**	**–**	**–**	**1,524**	**–**	**–**	**–**	**1,524**
Appropriations to surplus reserve and general reserve	32(a)	**–**	**–**	**–**	**–**	**15,000**	**–**	**(15,000)**	**–**
Exchange differences	31(f)	**–**	**–**	**–**	**–**	**–**	**(201)**	**–**	**(201)**
Dividends declared during the period		**–**	**–**	**–**	**–**	**–**	**–**	**(15,190)**	**(15,190)**
As at 30 June 2008		**233,689**	**90,241**	**17,845**	**7,153**	**46,200**	**(237)**	**57,366**	**452,257**
As at 1 January 2007		224,689	42,091	11,133	(1,248)	10,341	(3)	42,708	329,711
Net profit for the six months		–	–	–	–	–	–	33,550	33,550
Net change in fair value of available-for-sale investments	31(d)	–	–	–	(2,596)	–	–	–	(2,596)
Net loss realised on disposal of available-for-sale investments	31(d)	–	–	–	85	–	–	–	85
Effect of changes in tax rate	22(b)	–	–	–	(145)	–	–	–	(145)
Appropriations to surplus reserve and general reserve	32(a)	–	–	3,355	–	20,839	–	(24,194)	–
Exchange differences	31(f)	–	–	–	–	–	(6)	–	(6)
Dividends declared during the period		–	–	–	–	–	–	(35,725)	(35,725)
As at 30 June 2007		224,689	42,091	14,488	(3,904)	31,180	(9)	16,339	324,874
As at 1 January 2007		224,689	42,091	11,133	(1,248)	10,341	(3)	42,708	329,711
Net profit for the year		–	–	–	–	–	–	67,117	67,117
Net change in fair value of available-for-sale investments	31(d)	–	–	–	15,901	–	–	–	15,901
Net loss realised on disposal of available-for-sale investments	31(d)	–	–	–	53	–	–	–	53
Amortisation of changes in fair value of investments reclassified from available-for-sale to held-to-maturity	31(d)	–	–	–	454	–	–	–	454
Impairment losses of available-for-sale investments	31(d)	–	–	–	1,373	–	–	–	1,373
Effect of changes in tax rate	22(b)	–	–	–	(145)	–	–	–	(145)
Shares issued	31(a), 31(b)	9,000	48,119	–	–	–	–	–	57,119
Appropriations to surplus reserve and general reserve	32(a)	–	–	6,712	–	20,859	–	(27,571)	–
Exchange differences	31(f)	–	–	–	–	–	(33)	–	(33)
Others		–	31	–	–	–	–	–	31
Dividends declared during the year		–	–	–	–	–	–	(52,064)	(52,064)
As at 31 December 2007		233,689	90,241	17,845	16,388	31,200	(36)	30,190	419,517

The notes on pages 65 to 192 form part of these financial statements.

Consolidated Cash Flow Statement

For the six months ended 30 June 2008
(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June 2008	2007
Operating activities			
Profit before tax		**75,655**	50,542
Adjustments for:			
— dividend income	6	**(75)**	(76)
— revaluation gain on trading investments and derivatives		**(335)**	(198)
— net gain on disposal of investments, property and equipment and other assets		**(1,730)**	(628)
— unwinding of discount		**(802)**	(984)
— share of profit in associate and jointly controlled entity		**(18)**	(13)
— unrealised foreign exchange loss		**3,469**	3,401
— depreciation charges and amortisation	9	**4,487**	3,854
— provisions for impairment losses		**13,906**	11,969
— interest expense on subordinated bonds issued	3	**1,005**	954
		95,562	68,821
Changes in operating assets and liabilities:			
Increase in balances with central banks		**(109,325)**	(143,094)
Increase in amounts due from banks and non-bank financial institutions		**(68,702)**	(18,456)
Increase in loans and advances to customers		**(286,807)**	(300,994)
Increase in other operating assets		**(64,857)**	(2,402)
(Decrease)/increase in amounts due to central banks		**(49,611)**	50
(Decrease)/increase in amounts due to banks and non-bank financial institutions		**(838)**	307,291
Increase in deposits from customers		**462,930**	332,028
Increase in certificates of deposit issued		**2,828**	3,320
Income tax paid		**(28,318)**	(20,601)
Increase in other operating liabilities		**22,021**	3,259
Net cash (used in)/from operating activities		**(25,117)**	229,222

Consolidated Cash Flow Statement

For the six months ended 30 June 2008
(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June 2008	2007
Investing activities			
Proceeds from disposal and redemption of investment securities		**475,349**	532,752
Dividend received		**75**	76
Investment in a subsidiary	18	**62**	—
Proceeds from disposal of property and equipment and other assets		**410**	166
Payments on acquisition of investment securities		**(481,849)**	(768,829)
Payments on acquisition of jointly controlled entity	33(b)	**(415)**	—
Payments on acquisition of property and equipment and other assets		**(4,473)**	(2,051)
Net cash used in investing activities		**(10,841)**	(237,886)
Financing activities			
Dividend paid by subsidiaries to minority shareholder		**(23)**	—
Interest paid on subordinated bonds issued		**(158)**	(126)
Net cash used in financing activities		**(181)**	(126)
Effect of exchange rate changes on cash and cash equivalents held		**(1,095)**	(531)
Net decrease in cash and cash equivalents		**(37,234)**	(9,321)
Cash and cash equivalents as at 1 January	33(a)	**180,508**	167,489
Cash and cash equivalents as at 30 June	33(a)	**143,274**	158,168
Cash flows from operating activities include:			
Interest received		**157,631**	121,103
Interest paid, excluding interest expense on subordinated bonds issued		**(48,482)**	(37,953)

The notes on pages 65 to 192 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

With the approval of the State Council, China Construction Bank ("CCB") underwent a restructuring (the "Restructuring") on 30 December 2003. As part of the Restructuring, China Construction Bank Corporation (the "Bank"), a joint stock company with limited liability was incorporated in the People's Republic of China (the "PRC") on 17 September 2004. The registered office of the Bank is located at No. 25, Finance Street, Xicheng District, Beijing, the PRC.

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 consolidated financial statements for the six months ended 30 June 2008 comprise the Bank and its subsidiaries and the Group's interest in associate and jointly controlled entity.

For the purpose of the 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.

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") and its interpretations promulgated by the International Accounting Standards Board (the "IASB"). The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The IASB has issued certain new and revised IFRSs. IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operates, or otherwise participate in, customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. The Bank early adopted IFRIC 13 and made the relevant adjustment according to IAS 8. The Group has not adopted certain new standards and interpretations not yet effective for the current accounting period (see Note 42).

The accounting policies set out below have been applied consistently by the Group in the preparation of these financial statements.

(b) Basis of preparation of the financial statements

The financial statements are presented in Renminbi ("RMB") and expressed in millions of Renminbi unless otherwise stated.

The financial statements are prepared using the historical cost basis, except for the following assets and liabilities which are stated at their fair value: financial assets and financial liabilities at fair value through profit or loss and available-for-sale financial assets, except those for which a reliable measure of fair value is not available; and certain non-financial assets which are stated at deemed cost.

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements (continued)

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the subsequent period are discussed in Note 2.

(c) Subsidiaries and minority interests

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities. In assessing control, potential voting rights that presently are exercisable are taken into account. 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.

The Group does not consolidate Special Purpose Entities ("SPEs") that it does not control. As it can sometimes be difficult to determine whether the Group has control over SPEs, it makes judgement about risks and rewards as well as the ability to make operational decisions for the SPEs. In many instances, elements are present that, considered in isolation, indicate control or lack of control over a SPE, but when considered together make it difficult to reach a clear conclusion. When assessing whether the Group has to consolidate a SPE, the Group evaluates a range of factors, including whether (a) the Group will obtain the majority of the benefits of the activities of a SPE, (b) the Group retains the majority of the residual or ownership risks related to the assets in order to obtain the benefits from its activities, (c) the Group has the decision-making powers to obtain the majority of the benefits, or (d) the activities of the SPE are being conducted on behalf of the Group and according to the Group's specific business needs so that the Group obtains the benefits from the SPE's operations. The Group consolidates a SPE if an assessment of the above relevant factors indicates that the Group has a control over the SPE.

When preparing the consolidated financial statements, the Bank shall make necessary adjustment on the accounting period and the accounting policies of subsidiaries to comply with those of the Bank.

Intragroup balances and transactions, and any unrealised profits or losses arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements.

Minority interests represent the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Bank, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interest that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity, separately from equity attributable to the shareholders of the Bank. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the net profit or loss for the period between minority interests and the shareholders of the Bank.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Subsidiaries and minority interests (continued)

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation (such as the articles of association or agreement stipulate) to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Bank's balance sheet, its investments in subsidiaries are stated at cost less impairment losses, if any.

(d) Associates and jointly controlled entities

An associate is an enterprise in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policy decisions.

A jointly controlled entity is an enterprise which operates under joint control in accordance with a contractual agreement between the Group and other parties. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control.

Investments in associate or jointly controlled entity are accounted for using the equity method in the consolidated financial statements and are initially recorded at acquisition cost, and adjusted thereafter for the post acquisition change in the Group's share of net assets of the associate or jointly controlled entity. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate or jointly controlled entity for the period.

When the Group's share of losses exceeds its interest in the associate or jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or jointly controlled entity. If the associate or jointly controlled entity subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised. The Group's interest in the associate or jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associate or jointly controlled entity are eliminated to the extent of the Group's interest in the associate or jointly controlled entity.

(e) Goodwill

(i) Cost

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less any accumulated allowances for impairment losses. Goodwill is allocated to cash-generating units ("CGUs") and is tested annually for impairment.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Goodwill (continued)

(i) Cost (continued)

Any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in income statement.

(ii) Impairment

Internal and external sources of information are reviewed at each balance sheet date to identify indications that goodwill may be impaired. If any such indication exists, the recoverable amount of the goodwill is estimated annually to determine whether or not there is any impairment and the amount of impairment.

The recoverable amount of goodwill is the value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGUs with allocated goodwill.

At the time of impairment testing a CGU to which goodwill has been allocated, there may be an indication of an impairment of an asset within the unit containing the goodwill. In such circumstances, the Group tests the asset for impairment first, and recognises any impairment loss for that asset before testing for impairment the CGU containing the goodwill. Similarly, there may be an indication of an impairment of a CGU within a group of units containing the goodwill. In such circumstances, the entity tests the CGU for impairment first, and recognises any impairment loss for that unit, before testing for impairment the group of units to which the goodwill is allocated.

An impairment loss is recognised in the income statement whenever the carrying amount of the CGU with allocated goodwill exceeds its recoverable amount. Impairment losses recognised in respect of CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of units), and then to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value-in-use, if determinable.

An impairment loss in respect of goodwill is not reversed.

(iii) Disposal

On disposal of a cash-generating unit, any attributable amount of the purchased goodwill net of impairment allowance, if any, is included in the calculation of the gain or loss on disposal.

(f) Financial instruments

(i) Initial recognition

All financial assets and financial liabilities are recognised in the balance sheet, when and only when, the Group becomes a party to the contractual provisions of the instrument.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(i) Initial recognition (continued)

The Group classifies financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: financial assets and financial liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs for financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

A regular way purchase or sale of financial assets and financial liabilities is recognised using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

(ii) Categorisation

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

A financial asset or financial liability is classified as held for trading if it is:

— acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

— part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

— a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when:

— the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;

— the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in measurement basis of the financial assets or financial liabilities; or

— a contract contains one or more embedded derivatives, i.e. an entire hybrid (combined) contract, unless:

    — the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(ii) Categorisation (continued)

Financial assets and financial liabilities at fair value through profit or loss (continued)

— it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at fair value through profit or loss are presented in the balance sheet items as trading investments and trading liabilities respectively.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than (a) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (b) those that meet the definition of loans and receivables.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise loans and advances to customers, amounts due from banks and non-bank financial institutions and debt securities classified as receivables.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets or loans and receivables.

Other financial liabilities
Other financial liabilities are financial liabilities other than those designated as at fair value through profit or loss and mainly comprise amounts due to central banks, amounts due to banks and non-bank financial institutions, deposits from customers, certificates of deposit issued and subordinated bonds issued.

(iii) Subsequent measurement

Subsequent to initial recognition, held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortised cost less impairment allowance, if any, while other remaining financial assets and financial liabilities are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(iii) Subsequent measurement (continued)

Investments in available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and a derivative asset or a derivative liability that is linked to and must be settled by delivery of such unquoted equity instruments are carried at cost less impairment allowance, if any.

Gains and losses from changes in the fair value of financial instruments at fair value through profit or loss are included in the income statement when they arise. Except for impairment losses and foreign exchange gains and losses on monetary items which are recognised in the income statement, unrealised gains and losses arising from a change in the fair value of available-for-sale financial assets are recognised directly in equity in the investment revaluation reserve, and recognised in the income statement when the financial asset is derecognised.

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments that are released from equity. For financial assets and liabilities carried at amortised cost, the gain or loss from the derecognition, impairment or amortization process are recognised in the income statement directly.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices in an active market at the valuation date without any deduction for transaction costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices. A quoted market price is from an active market where price information is readily and regularly available from an exchange, dealer, industry group or pricing service agency, and that price information represents actual and regularly occurring market transactions on an arm's length basis.

If a quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include recent arm's length market transactions between knowledgeable and willing parties, reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Periodically the Group calibrates the valuation techniques and tests them for validity. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign currency exchange price and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data in the same market where the financial instrument was originated or purchased.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(v) Derecognition

Financial assets

The Group derecognises a financial asset (or a part of a financial asset, or a part of a group of similar financial assets), if the part being considered for derecognition meets one of the following conditions:

— the contractual rights to receive the cash flows from the financial asset expire; or

— the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or

— the Group retains the contractual rights to receive the cash flows of the financial asset have been retained, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the condition of derecognition of transfer of cash flows and transfers substantially all the risks and rewards of ownership of the financial asset.

Financial liabilities

The financial liability (or part of it) is derecognised only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the income statement for the period.

(vi) Impairment

Financial assets are assessed at each balance sheet date to determine whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes the following loss events:

— significant financial difficulty of the borrower or issuer;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;

— it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

— disappearance of an active market for financial assets because of financial difficulties;

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(vi) Impairment (continued)

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the group;

- significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer;

- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; and

- other objective evidence indicating there is an impairment of financial asset.

The carrying amount of an asset is reduced through the use of an allowance for impairment losses and a corresponding provision for impairment losses is recognised in the income statement.

Losses expected as a result of future events, no matter how likely, are not recognised as impairment losses.

- *Loans and receivables and held-to-maturity investments*

  The Group uses two methods of assessing impairment losses: individual assessment and collective assessment.

  (vi-1) Individually assessed financial assets

  Loans and receivables and held-to-maturity investments, which are considered individually significant, are assessed individually for impairment.

  If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate, and recognised in the income statement.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(vi) Impairment (continued)

— *Loans and receivables and held-to-maturity investments (continued)*

(vi-1) Individually assessed financial assets (continued)

Loans and receivables and held-to-maturity investments which are assessed individually for impairment are assessed in the light of the objective evidence of loss events.

It may not be possible to identify a single, discrete event that caused the impairment but it may be possible to identify impairment through the combined effect of several events.

Cash flows relating to short-term loans and receivables and held-to-maturity investments are not discounted if the effect of discounting is immaterial.

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

(vi-2) Collectively assessed financial assets

Loans and receivables and held-to-maturity investments which include the following are assessed for impairment losses on a collective basis:

— homogeneous groups of loans and advances not considered individually significant;

— individually assessed loans and receivables and held-to-maturity investments with no objective evidence of impairment on an individual basis.

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

Loans and receivables and held-to-maturity investments assessed collectively for impairment are assessed in the light of objective evidence of impairment that there is observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets.

Homogeneous groups of loans and advances not considered individually significant

For homogeneous groups of loans and advances that are not considered individually significant, the Group adopts a flow rate methodology to assess impairment losses on a collective basis. This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(vi) Impairment (continued)

— *Loans and receivables and held-to-maturity investments (continued)*

(vi-2) Collectively assessed financial assets (continued)

Individually assessed loans and receivables and held-to-maturity investments with no objective evidence of impairment on an individual basis

Loans and receivables and held-to-maturity investments which are individually significant and therefore have been individually assessed but for which no impairment can be identified, either due to the absence of any loss events or due to an inability to measure reliably the impact of loss events on future cash flows, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This assessment covers those loans and receivables and held-to-maturity investments that were impaired at the balance sheet date but which will not be individually identified as such until some time in the future.

The collective impairment loss is assessed after taking into account:

— historical loss experience in portfolios of similar risk characteristics;

— the emergence period between a loss occurring and that loss being identified; and

— the current economic and credit environments and whether in management's experience these indicate that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Group operates.

Impairment losses recognised on a collective basis represent an interim step pending the identification of impairment losses on individual assets (which are subject to individual assessment) in the pool of financial assets that are collectively assessed for impairment.

As soon as information is available that specifically identifies objective evidence of impairment on individual assets in a pool, those assets are removed from the pool of financial assets. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(vi) Impairment (continued)

— *Loans and receivables and held-to-maturity investments (continued)*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

When the borrower or the guarantor fails to repay the loan principal and interest, and repossessed assets are received by the Group for recovery of the impaired loans, the carrying value of the impaired loans is adjusted to the estimated fair value of the repossessed assets through impairment allowances. The adjusted carrying value of the impaired loans is transferred to repossessed assets.

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other proceedings, the loan is written off against its allowance for impairment losses. If in a subsequent period the loan written off is recovered, the amount recovered will be recognised in the income statement through impairment losses.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remain as impaired or past due.

— *Available-for-sale financial assets*

When an available-for-sale financial asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from equity and recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

If, in a subsequent period, the fair value of an available-for-sale debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, with the amount of the reversal being recognised in the income statement. Impairment losses recognised in the income statement for an investment in an equity instrument classified as available-for-sale are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised directly in equity.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(vi) Impairment (continued)

— *Available-for-sale financial assets (continued)*

For investments in equity instruments that do not have a quoted market price in an active market and the fair value cannot be reliably measured, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, and is recognised in the income statement.

Impairment losses recognised in an interim period in respect of available-for-sale equity investments carried at cost are not reversed in a subsequent period. This is the case even if no loss or a smaller loss would have been recognised had the impairment been assessed only at the end of the year to which the interim period relates.

(vii) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(viii) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks. In accordance with its treasury policy, the Group generally does not hold or issue derivatives financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as financial assets and financial liabilities at fair value through profit or loss.

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement.

(ix) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

When the embedded derivative is separated, the host contract is accounted for in accordance with note(i), (ii) and (iii) above.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(x) Securitisation

The Group securitises various loans, which generally results in the sale of these assets to SPEs, which, in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of credit enhancement or subordinated tranches, or other residual interests ("retained interests"). Retained interests are carried at fair value on inception date on the Group's balance sheet. Gains or losses on securitisation depend in part on the carrying amount of the transferred financial assets, allocated between the financial assets derecognised and the retained interests based on their relative fair values at the date of the transfer. Gains or losses on securitisation are recorded in "Other operating gain/loss, net".

In applying its policies on securitised financial assets, the Group has considered both the degree of transfer of risks and rewards on assets transferred and the degree of control exercised by the Group over those financial assets:

— when the Group transfers substantially all the risks and rewards of ownership of the financial asset, the Group shall derecognise the financial assets;

— when the Group retains substantially all the risks and rewards of ownership of the financial assets, the Group shall continue to recognise the financial assets; and

— when the Group neither transfers nor retains substantially all the risk and rewards of ownership of the financial asset, the Group would determine whether it has retained control of the financial assets. If the Group has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligation created or retained in the transfer. If the Group has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial assets.

(g) Resale and repurchase agreements

Assets purchased subject to agreements to resell them at future dates (resale agreements) are not recognised. The amounts paid are accounted for as balances with central banks, amounts due from banks and non-bank financial institutions or loans and advances to customers depending on the identity of the counterparty and are carried in the balance sheet at amortised cost.

Assets sold subject to simultaneous agreements to repurchase them at certain later dates at fixed prices (repurchase agreements) continue to be recognised in the financial statements, and are measured in accordance with the accounting policy for such assets. The proceeds from the sale of the assets are reported as amounts due to central banks, banks or non-bank financial institutions and are carried in the balance sheet at amortised cost.

The difference between the sale and repurchase consideration, and that between the purchase and resale consideration, are amortised over the period of the respective transaction using the effective interest method and are included in interest income and interest expense respectively.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property and equipment

(i) Cost

Items of property and equipment other than construction in progress are stated at cost, or deemed cost, less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of attributable indirect costs.

Construction in progress, an item of property and equipment, represents property and equipment under construction and is stated at cost less impairment losses. Capitalisation of these costs ceases and the construction in progress is transferred to an appropriate class of property and equipment when the asset is ready for its intended use.

Pursuant to the Restructuring, all property and equipment were revalued to fair value on 31 December 2003 by an independent professional valuer in the PRC, China Consultants of Accounting and Financial Management Co., Ltd ("CCAFM"). The revalued amount was adopted as the deemed cost of the property and equipment on 31 December 2003.

(ii) Subsequent costs

The Group recognises in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense when incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost or deemed cost, less estimated residual value if applicable, of items of property and equipment (excluding construction in progress) and is charged to the income statement on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. The estimated useful lives are as follows:

	Estimated useful lives
Bank premises	30–35 years
Computer equipment	3–8 years
Others	4–11 years

Where an item of property and equipment comprises major components having different useful lives, the cost or deemed cost of the item is allocated on a reasonable basis between the components and each component is depreciated separately.

The useful life of an item of property and equipment, its residual value and the depreciation method, are reassessed at least annually at year end.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property and equipment (continued)

(iv) Impairment

The carrying amount of property and equipment is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised in the income statement. The recoverable amount is the greater of the net selling price and value in use.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

(v) Disposal and retirement

Gains or losses arising from the disposal or retirement of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of disposal or retirement.

(i) Finance and operating lease

(i) Classification

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the balance sheet as "Loans and advances to customers". Unrecognised finance income under finance leases are amortised using an effective interest rate method over the lease term. Finance income implicit in the lease payment is recognised as "Interest income" over the period of the leases in proportion to the funds invested. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(f)(vi).

(iii) Operating lease

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Land use rights

Land use rights are stated at cost or deemed cost, being the fair value on 31 December 2003 determined by CCAFM, using the comparable market basis.

Land use rights are amortised on a straight-line basis over the respective periods of grant of 30–50 years.

(k) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower, repossessed assets are reported in "other assets".

Repossessed assets are recorded at the lower of the amount of the related loans and advances and fair value. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in the income statement.

(l) Cash equivalents

Cash equivalents comprise non-restricted balances with central banks, banks and non-bank financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(m) Provisions and contingent liabilities

(i) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

A potential obligation arising from a past transaction or event whose existence can only be confirmed by the occurrence or non-occurrence of future uncertain events; or a present obligation that arises from past transactions or events and it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Provisions and contingent liabilities (continued)

(ii) Financial guarantees issued

Financial guarantees are contracts that require the guarantor (the "issuer") to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs when a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in "Other liabilities and provisions".

The deferred income is amortised over the term of the guarantee and is recognised in the income statement as income from financial guarantees issued. In addition, provisions are recognised in the balance sheet in accordance with Note 1(m)(i) if and when (a) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (b) the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

(n) Employee benefits

(i) Employment benefits

Salaries and bonuses, housing benefits and costs for social security benefits are accrued in the period in which the services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Staff incentive plan

As approved by the board of directors, for the purposes of providing incentives and rewards to eligible employees for their past services, the Group awards a specified amount of staff compensation to the staff incentive plan independently managed by a designated staff committee for those eligible participating employees. The Group recognises its contribution to the plan when it has a present legal or constructive obligation to make such payment and a reliable estimate of the obligation can be made.

(iii) Post employment benefits

Post employment benefits of the Group mainly include defined contribution retirement schemes and annuity, supplementary retirement benefits to the employees who retired on or before 31 December 2003 and early retirement expenses.

Defined contribution retirement schemes and annuity

Obligations for contributions to defined contribution retirement schemes and annuity are recognised as an expense in the income statement as incurred for current employees.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Employee benefits (continued)

(iii) Post employment benefits (continued)

Supplementary retirement benefits

The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits are discounted to determine their present values. The discount rate is the yield on PRC government bonds at the balance sheet date, the maturity dates of which approximate to the terms of the Group's obligations. In calculating the Group's obligations, to the extent that any cumulative unrecognised gains or losses exceed 10% of the present value of the obligation at the balance sheet date, that portion is recognised in the income statement. Otherwise, the gain or loss is not recognised.

Early retirement expenses

The Group recognises the present value of all its liabilities to employees who agreed to retire early in return for certain future payments as an expense in the income statement when the relevant staff ceases to provide any services to the Group. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in the income statement when incurred.

(o) Income tax

Current income tax and movements in deferred tax balances are recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the balance sheet liability method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets also arise from unused tax losses and unused tax credits. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced by the extent that it is no longer probable that the related tax benefit will be realised.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income tax (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group or the Bank has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group or the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Fiduciary activities

The Group acts in a fiduciary capacity as a custodian, trustee or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are excluded from the financial statements as the risks and rewards of the assets reside with the customers.

Entrusted lending is the business where the Group enters into entrusted loan agreements with customers, whereby the customers provide funding (the "entrusted funds") to the Group, and the Group grants loans to third parties (the "entrusted loans") at the instruction of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts and no impairment assessments are made for these entrusted loans.

(q) Income recognition

Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Interest income

Interest income arising from the use by others of entity assets is recognised in income statement based on the duration and the effective interest rate. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income recognition (continued)

(i) Interest income (continued)

The effective interest method is a method of calculating the amortised cost of financial assets and liabilities and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest on the impaired financial assets is recognised using the rate of interest used to discount future cash flows ("unwinding of discount") for the purpose of measuring the related impairment loss.

(ii) Fee and commission income

Fee and commission income is recognised in the income statement when the corresponding service is provided.

Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan, the fee is recognised as revenue on expiry.

(iii) Finance income from finance lease and hire purchase contract

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(iv) Dividend income

Dividend income from unlisted equity investment is recognised in the income statement on the date when the Group's right to receive payment is established. Dividend income from a listed equity investment is recognised when the share price of the investment goes ex-dividend.

(r) Foreign currency translation

Foreign currency transactions are, on initial recognition, translated to functional currency at the spot exchange rates or the rates that approximate the spot exchange rates ruling at the dates of the transaction.

An exchange rate that approximates the spot exchange rate is determined by a systematic and rational method, normally the average exchange rate of the current period.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Foreign currency translation (continued)

Monetary items denominated in foreign currencies are translated to functional currency at the spot exchange rates at the balance sheet date. The resulting exchange differences are recognised in income statement. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to functional currency using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognised in income statement, except for the differences arising from the translation of available-for-sale financial assets, which is recognised in investment revaluation reserve.

The assets and liabilities of operations outside Mainland China are translated into Renminbi at the spot exchange rates ruling at the balance sheet date. The equity items, excluding "retained earnings", are translated to Renminbi at the spot exchange rates on the transaction dates. The income and expenses of foreign operation are translated to Renminbi at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. Foreign exchange differences arising from translation are recognised as "exchange reserve" in equity.

(s) Profit distribution

Dividend payable is recognised as liabilities in the period in which they are approved. The proposed dividend which is approved and declared after balance sheet date are not recognised as liabilities in the balance sheet and is disclosed as a subsequent event after the balance sheet date in the note to the financial statements separately.

(t) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such individuals, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of an individual referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Segment reporting

The Group discloses its business and geographical segment information in the financial statements. A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and rewards different from those of other segments. A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risks and rewards different from those of other segments.

2 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the carrying amounts of some assets and liabilities, the Group makes estimates of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used and future changes in prices affecting other costs. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(a) Impairment losses on loans and advances and held-to-maturity investments

The Group reviewed the portfolios of loans and advances and held-to-maturity investments periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan or held-to-maturity investment. It also includes observable data indicating adverse changes in the repayment status of borrowers or issuers in the assets portfolio or national or local economic conditions that correlate with defaults on the assets in the portfolio. The impairment loss for a loan or held-to-maturity investment that is individually assessed for impairment is the decrease in the estimated discounted future cash flow of that asset. When loans and advances and held-to-maturity investments are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management review the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

(b) Impairment of available-for-sale equity investments

For available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the Group considers historical data of market volatility and historical share price of the specific equity investment as well as other factors, such as sector performance, and financial information regarding the investee.

(c) Fair value of financial instruments

The fair values for financial instruments without active market to provide quoted price are established by using valuation techniques. These techniques include using recent arm's length market transactions, reference to the current fair value of similar instruments, discounted cash flow analysis and option pricing models. The Group has established a process to ensure that valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified before implementation and are calibrated to ensure that outputs reflect actual market conditions. Valuation models established by the Group make the maximum use of market inputs and rely as little as possible on Group-specific data. However, it should be noted that some inputs, such as credit and counterparty risk, and risk correlations, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary.

(Expressed in millions of Renminbi unless otherwise stated)

2 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(d) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments if the Group has the intention and ability to hold them until maturity. In evaluating whether the requirements to classify a financial asset as held-to-maturity are met, management make significant judgements. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(e) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

3 NET INTEREST INCOME

	Six months ended 30 June	
	2008	2007
Interest income arising from:		
Balances with central banks	**9,228**	4,930
Amounts due from banks and non-bank financial institutions	**3,080**	1,468
Trading investments	**371**	133
Loans and advances to customers		
— corporate loans and advances	**90,365**	69,849
— personal loans and advances	**26,343**	19,726
— discounted bills	**3,930**	2,700
Investment securities	**38,876**	32,091
Total interest income	**172,193**	130,897
Interest expense arising from:		
Amounts due to central banks	**(55)**	(24)
Amounts due to banks and non-bank financial institutions	**(6,190)**	(4,143)
Trading financial liabilities	**(191)**	(542)
Deposits from customers	**(53,491)**	(35,833)
Certificates of deposit issued	**(181)**	(188)
Subordinated bonds issued	**(1,005)**	(954)
Total interest expense	**(61,113)**	(41,684)
Net interest income	**111,080**	89,213

(Expressed in millions of Renminbi unless otherwise stated)

3 NET INTEREST INCOME (continued)

Notes:

(i) The interest income from financial assets at fair value through profit or loss and the interest expense on financial liabilities at fair value through profit or loss are listed as follows:

	Six months ended 30 June	
	2008	2007
Interest income	**371**	133
Interest expense	**(191)**	(542)

(ii) The interest income from financial assets not at fair value through profit or loss and the interest expense on financial liabilities not at fair value through profit or loss are listed as follows:

	Six months ended 30 June	
	2008	2007
Interest income	**171,822**	130,764
Interest expense	**(60,922)**	(41,142)

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

	Six months ended 30 June	
	2008	2007
Interest income from impaired loans	**876**	1,026
Interest income from other impaired financial assets	**674**	17
Total	**1,550**	1,043

(iv) Interest expense on financial liabilities with maturity over five years mainly represented the interest expense on subordinated bonds issued.

(Expressed in millions of Renminbi unless otherwise stated)

4 NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2008	2007
Fee and commission income arising from:		
Fees for agency services	**6,190**	6,046
Consultancy and advisory fees	**3,562**	1,366
Bank card fees	**3,258**	2,299
Commission on trust and fiduciary activities	**2,603**	1,219
Settlement and clearing fees	**2,238**	1,579
Credit commitment fees	**1,024**	193
Guarantee fees	**703**	224
Others	**1,348**	345
Total fee and commission income	**20,926**	13,271
Fee and commission expenses arising from:		
Bank card transaction fees	**(414)**	(293)
Inter-bank transaction fees	**(141)**	(130)
Others	**(203)**	(188)
Total fee and commission expenses	**(758)**	(611)
Net fee and commission income	**20,168**	12,660

5 NET TRADING GAIN

	Six months ended 30 June	
	2008	2007
Debt securities	**378**	(72)
Derivatives	**932**	202
Equity investments	**(111)**	88
Others	**93**	29
	1,292	247

(Expressed in millions of Renminbi unless otherwise stated)

6 DIVIDEND INCOME

	Six months ended 30 June	
	2008	2007
Dividend income from listed trading equity investments	**10**	—
Dividend income from available-for-sale equity investments		
— listed	**40**	12
— unlisted	**25**	64
	75	76

7 NET INCOME ARISING FROM INVESTMENT SECURITIES

	Six months ended 30 June	
	2008	2007
Net income on sale of available-for-sale securities	**1,330**	676
Net revaluation gain/(loss) transferred from equity on disposal	**316**	(127)
	1,646	549

8 OTHER OPERATING INCOME/(LOSS), NET

	Six months ended 30 June	
	2008	2007
Net foreign exchange gain/(loss)	**759**	(3,568)
Net gain on disposal of property and equipment	**84**	29
Net gain on disposal of repossessed assets	**28**	89
Others	**604**	478
	1,475	(2,972)

Net foreign exchange gain/(loss) includes the changes in fair value and net exchange gains arising from foreign exchange options, swaps and currency interest swaps entered into for economically hedging long positions in foreign currency assets.

(Expressed in millions of Renminbi unless otherwise stated)

9 OPERATING EXPENSES

	Six months ended 30 June	
	2008	2007
Staff costs		
— Salaries, bonuses and allowances	**15,592**	12,535
— Defined contribution retirement schemes and annuity	**2,091**	1,817
— Other social insurance and welfare	**2,632**	2,428
— Housing fund	**1,220**	1,077
— Labour union expenses and employee education expenses	**539**	419
— Supplementary retirement benefits	**—**	288
— Staff termination costs	**19**	12
	22,093	18,576
Premises and equipment expenses		
— Depreciation charges	**3,986**	3,356
— Rent and property management expenses	**1,718**	1,521
— Maintenance	**599**	338
— Utilities	**596**	516
— Others	**326**	326
	7,225	6,057
Amortisation expenses	**501**	498
Business tax and surcharges (note)	**7,717**	5,665
Audit fees	**82**	61
Other general and administrative expenses	**8,575**	6,418
	46,193	37,275

Note: Business tax of 5% is levied primarily on interest income from loans and advances to customers, and fee and commission income.

The surcharges, which include education surcharges and city construction tax, are charged at 3% and between 1% and 7% of business tax paid respectively.

(Expressed in millions of Renminbi unless otherwise stated)

10 PROVISIONS FOR IMPAIRMENT LOSSES

	Six months ended 30 June	
	2008	2007
Loans and advances to customers		
— Additions	**15,905**	13,429
— Releases	**(4,447)**	(1,781)
Investment securities		
— Available-for-sale debt securities	**2,032**	64
— Available-for-sale equity investments	**107**	23
— Held-to-maturity debt securities	**989**	77
— Debt securities classified as receivables	**(636)**	1
Property and equipment	**21**	—
Other assets	**(65)**	156
Total	**13,906**	11,969

11 INCOME TAX

(a) Recognised in the consolidated income statement

	Six months ended 30 June	
	2008	2007
Current tax		
— Mainland China	**17,215**	17,209
— Hong Kong	**155**	101
— Other countries and regions	**14**	2
	17,384	17,312
Adjustments on income tax for prior years	**(296)**	(22)
Deferred tax recognised in current period	**(125)**	(1,003)
Total income tax	**16,963**	16,287

The provision for Mainland China income tax for the six months ended 30 June 2008 is calculated at 25% (for the six months ended 30 June 2007: 33%) of the estimated taxable income from Mainland operations for the period. The provision for Hong Kong Profits Tax for the six months ended 30 June 2008 is calculated at 16.5% (for the six months ended 30 June 2007: 17.5%) of the estimated assessable profits from Hong Kong operations for the relevant period. Taxation for other overseas operations is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

(Expressed in millions of Renminbi unless otherwise stated)

11 INCOME TAX (continued)

(b) Reconciliation between tax expense and accounting profit

		Six months ended 30 June	
		2008	2007
Profit before tax		**75,655**	50,542
Income tax calculated at statutory tax rate	*(i)*	**18,914**	16,679
Non-deductible expenses			
— Staff costs	*(ii)*	**—**	111
— Provisions for impairment losses and bad debt write-off		**5**	709
— Others		**161**	35
		166	855
Non-taxable income			
— Interest income from PRC government bonds		**(1,593)**	(1,434)
— Others		**(228)**	(56)
		(1,821)	(1,490)
Total		**17,259**	16,044
Effect of change in tax rate on deferred tax	*(i)*	**—**	265
Adjustments for prior years		**(296)**	(22)
Income tax expenses		**16,963**	16,287

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

(ii) Prior to 1 January 2008, the Bank's tax deductible staff costs are calculated based on the previous year's tax deductible staff costs, adjusting for the performance of the Bank. In accordance with the new income tax law, the staff costs of the Bank are all deductible from 1 January 2008.

12 EARNINGS PER SHARE

Basic earnings per share for the six months ended 30 June 2008 have been computed by dividing the net profit attributable to shareholders of the Bank of RMB58,667 million (for the six months ended 30 June 2007: RMB34,221 million) by 233,689 million shares (for the six months ended 30 June 2007: 224,689 million shares), being the shares that were in issue during the six months.

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 2008 and 2007.

(Expressed in millions of Renminbi unless otherwise stated)

13 CASH AND BALANCES WITH CENTRAL BANKS

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Cash	**29,014**	32,240	**28,906**	32,081
Balances with central banks				
— Statutory deposit reserves (note(i))	**948,079**	724,941	**947,916**	724,832
— Surplus deposit reserves (note(ii))	**84,811**	74,938	**84,810**	74,938
— Fiscal deposits	**16,232**	11,605	**16,232**	11,605
— Balances under resale agreements	**5,000**	123,650	**5,000**	123,650
	1,054,122	935,134	**1,053,958**	935,025
Total	**1,083,136**	967,374	**1,082,864**	967,106

Notes:

(i) 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 and subsidiaries of the Bank were as follows:

	As at 30 June 2008	As at 31 December 2007
Reserve rate for RMB deposits	**17.5%**	14.5%
Reserve rate for foreign currency deposits	**5.0%**	5.0%

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

(ii) The surplus deposit reserves are maintained with the PBC mainly for the purpose of clearing.

(Expressed in millions of Renminbi unless otherwise stated)

14 AMOUNTS DUE FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(a) Analysed by nature

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Money market placements	**34,463**	65,185	**32,448**	59,383
Deposits	**27,096**	24,141	**23,445**	23,831
Balances under resale agreements	**64,059**	13,606	**64,059**	13,606
Gross balances	**125,618**	102,932	**119,952**	96,820
Less: Allowances for impairment losses (Note 14(c))	**(417)**	(539)	**(417)**	(539)
Net balances	**125,201**	102,393	**119,535**	96,281
Gross balances with banks and non-bank financial institutions				
— maturing within one month	**61,778**	73,651	**57,849**	68,014
— maturing between one month and one year	**63,839**	29,005	**62,102**	28,530
— maturing after one year	**1**	276	**1**	276
	125,618	102,932	**119,952**	96,820

(Expressed in millions of Renminbi unless otherwise stated)

14 AMOUNTS DUE FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS (continued)

(b) Analysed by legal form of counterparty

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Balances with				
— PRC policy banks	**2,400**	—	**2,000**	—
— PRC state-owned banks and non-bank financial institutions	**21,815**	10,629	**21,815**	10,621
— PRC joint-stock banks and non-bank financial institutions	**68,273**	24,445	**65,643**	24,245
— Foreign-invested banks and non-bank financial institutions	**33,130**	67,858	**30,494**	61,954
Gross balances	**125,618**	102,932	**119,952**	96,820
Less: Allowances for impairment losses on balances with				
— PRC state-owned banks and non-bank financial institutions	**(114)**	(267)	**(114)**	(267)
— PRC joint-stock banks and non-bank financial institutions	**(296)**	(264)	**(296)**	(264)
— Foreign-invested banks and non-bank financial institutions	**(7)**	(8)	**(7)**	(8)
Total allowances for impairment losses	**(417)**	(539)	**(417)**	(539)
Net balances	**125,201**	102,393	**119,535**	96,281

(c) Movements of allowances for impairment losses

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
As at 1 January	**539**	920	**539**	920
Write back for the six months/year	**(91)**	(16)	**(91)**	(16)
Write-offs	**(31)**	(365)	**(31)**	(365)
As at 30 June/31 December	**417**	539	**417**	539

(Expressed in millions of Renminbi unless otherwise stated)

15 TRADING INVESTMENTS

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Debt securities (Note 15(a))	**73,567**	27,593	**68,461**	23,432
Equity investments (Note 15(b))	**2,806**	1,973	**—**	—
Funds (Note 15(b))	**122**	253	**—**	96
Total	**76,495**	29,819	**68,461**	23,528

(a) Debt securities

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Issued by entities in Mainland China				
— Government	**600**	485	**600**	485
— The PBC	**56,754**	12,148	**56,754**	12,148
— Policy banks	**7,126**	5,539	**7,124**	5,533
— State-owned enterprises	**1,437**	992	**1,437**	992
— Joint-stock enterprises	**3,270**	4,364	**1,081**	2,480
Issued by overseas entities				
— Governments	**43**	267	**35**	156
— Banks and non-bank financial institutions	**3,901**	3,061	**1,012**	1,172
— Public sector entities	**11**	12	**—**	—
— Others	**425**	725	**418**	466
Total	**73,567**	27,593	**68,461**	23,432
Listed in Hong Kong	**176**	245	**135**	165
Listed outside Hong Kong	**1,371**	1,655	**1,084**	1,382
Unlisted	**72,020**	25,693	**67,242**	21,885
Total	**73,567**	27,593	**68,461**	23,432

(Expressed in millions of Renminbi unless otherwise stated)

15 TRADING INVESTMENTS (continued)

(b) Equity investments and funds

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Issued by entities in Mainland China				
— Banks and non-bank financial institutions	**36**	33	**—**	—
— Joint-stock enterprises	**2,270**	1,731	**—**	96
Issued by overseas entities				
— Banks and non-bank financial institutions	**51**	—	**—**	—
— Others	**571**	462	**—**	—
Total	**2,928**	2,226	**—**	96
Listed in Hong Kong	**616**	818	**—**	—
Listed outside Hong Kong	**42**	330	**—**	96
Unlisted	**2,270**	1,078	**—**	—
Total	**2,928**	2,226	**—**	96

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Corporate loans and advances				
— Loans	**2,621,937**	2,428,527	**2,608,231**	2,413,457
— Finance leases	**2,020**	812	**—**	—
	2,623,957	2,429,339	**2,608,231**	2,413,457
Personal loans and advances				
— Residential mortgages	**584,180**	542,562	**567,226**	527,853
— Personal consumer loans	**70,108**	67,096	**70,108**	66,573
— Credit cards	**14,464**	10,176	**14,118**	10,176
— Others	**127,467**	119,754	**121,084**	119,168
	796,219	739,588	**772,536**	723,770
Discounted bills	**117,361**	103,230	**117,361**	102,906
Gross loans and advances to customers	**3,537,537**	3,272,157	**3,498,128**	3,240,133
Less: Allowances for impairment losses	**(91,572)**	(88,928)	**(91,497)**	(88,844)
— Individual assessment	**(42,708)**	(48,215)	**(42,685)**	(48,183)
— Collective assessment	**(48,864)**	(40,713)	**(48,812)**	(40,661)
Net loans and advances to customers	**3,445,965**	3,183,229	**3,406,631**	3,151,289

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS (continued)

(b) Analysed by assessment method of allowances for impairment losses

	(note (i)) Loans and advances for which allowances are collectively assessed	(note (ii)) Impaired loans and advances for which allowances are collectively assessed	(note (ii)) Impaired loans and advances for which allowances are individually assessed	Total
Group				
As at 30 June 2008				
Gross loans and advances to customers	**3,459,424**	**9,111**	**69,002**	**3,537,537**
Allowances for impairment losses	**(43,106)**	**(5,758)**	**(42,708)**	**(91,572)**
Net loans and advances to customers	**3,416,318**	**3,353**	**26,294**	**3,445,965**
As at 31 December 2007				
Gross loans and advances to customers	3,186,987	7,925	77,245	3,272,157
Allowances for impairment losses	(35,785)	(4,928)	(48,215)	(88,928)
Net loans and advances to customers	3,151,202	2,997	29,030	3,183,229
Bank				
As at 30 June 2008				
Gross loans and advances to customers	**3,420,042**	**9,109**	**68,977**	**3,498,128**
Allowances for impairment losses	**(43,056)**	**(5,756)**	**(42,685)**	**(91,497)**
Net loans and advances to customers	**3,376,986**	**3,353**	**26,292**	**3,406,631**
As at 31 December 2007				
Gross loans and advances to customers	3,155,004	7,925	77,204	3,240,133
Allowances for impairment losses	(35,733)	(4,928)	(48,183)	(88,844)
Net loans and advances to customers	3,119,271	2,997	29,021	3,151,289

16 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

Notes:

(i) 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.

(ii) 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, those 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 2008 is 2.21% (as at 31 December 2007: 2.60%).

The proportion of impaired loans and advances of the Bank to gross loans and advances as at 30 June 2008 is 2.23% (as at 31 December 2007: 2.63%).

(iii) The definitions of the loan classification stated in notes(i) and (ii) above are set out in Note 38(a).

(iv) As at 30 June 2008, the loans and advances of the Group for which the impairment allowances were individually assessed amounted to RMB69,002 million (as at 31 December 2007: RMB77,245 million). The covered portion and uncovered portion of these loans and advances were RMB22,153 million (as at 31 December 2007: RMB22,906 million) and RMB46,849 million (as at 31 December 2007: RMB54,339 million) respectively. The fair value of collaterals held against these loans and advances amounted to RMB27,879 million (as at 31 December 2007: RMB29,489 million). The individual impairment allowances made against these loans and advances were RMB42,708 million (as at 31 December 2007: RMB48,215 million).

As at 30 June 2008, the loans and advances of the Bank for which the impairment allowances were individually assessed amounted to RMB68,977 million (as at 31 December 2007: RMB77,204 million). The covered portion and uncovered portion of these loans and advances were RMB22,153 million (as at 31 December 2007: RMB22,887 million) and RMB46,824 million (as at 31 December 2007: RMB54,317 million) respectively. The fair value of collaterals held against these loans and advances amounted to RMB27,879 million (as at 31 December 2007: RMB29,470 million). The individual impairment allowances made against these loans and advances were RMB42,685 million (as at 31 December 2007: RMB48,183 million).

The above collaterals include land, properties, buildings, equipments, etc. The fair value of collaterals was estimated by the Group based on the latest available external valuations adjusted after taking into account the current realization experience as well as market situation.

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Movements of allowances for impairment losses

Group

	Six months ended 30 June 2008			
	Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances which are collectively assessed	Allowances for impaired loans and advances which are individually assessed	Total
As at 1 January	**35,785**	**4,928**	**48,215**	**88,928**
Charge for the period	**7,321**	**935**	**7,649**	**15,905**
Release during the period	**—**	**—**	**(4,447)**	**(4,447)**
Unwinding of discount	**—**	**—**	**(802)**	**(802)**
Transfers out (note (i))	**—**	**(1)**	**(6,574)**	**(6,575)**
Write-offs	**—**	**(107)**	**(1,425)**	**(1,532)**
Recoveries	**—**	**3**	**92**	**95**
As at 30 June	**43,106**	**5,758**	**42,708**	**91,572**

	Year ended 31 December 2007			
	Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances which are collectively assessed	Allowances for impaired loans and advances which are individually assessed	Total
As at 1 January	22,133	13,930	41,570	77,633
Reclassification (note (ii))	—	(6,750)	6,750	—
Charge for the year	13,652	—	18,305	31,957
Release during the year	—	(1,601)	(10,250)	(11,851)
Unwinding of discount	—	—	(1,939)	(1,939)
Transfers out (note (i))	—	(31)	(490)	(521)
Write-offs	—	(620)	(5,825)	(6,445)
Recoveries	—	—	94	94
As at 31 December	35,785	4,928	48,215	88,928

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Movements of allowances for impairment losses (continued)

Bank

	Six months ended 30 June 2008			
	Allowances for loans and advances which are collectively assessed	**Allowances for impaired loans and advances which are collectively assessed**	**Allowances for impaired loans and advances which are individually assessed**	**Total**
As at 1 January	**35,733**	**4,928**	**48,183**	**88,844**
Charge for the period	**7,323**	**933**	**7,643**	**15,899**
Release during the period	**—**	**—**	**(4,438)**	**(4,438)**
Unwinding of discount	**—**	**—**	**(802)**	**(802)**
Transfers out (note (i))	**—**	**(1)**	**(6,569)**	**(6,570)**
Write-offs	**—**	**(107)**	**(1,419)**	**(1,526)**
Recoveries	**—**	**3**	**87**	**90**
As at 30 June	**43,056**	**5,756**	**42,685**	**91,497**

	Year ended 31 December 2007			
	Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances which are collectively assessed	Allowances for impaired loans and advances which are individually assessed	Total
As at 1 January	22,002	13,929	41,541	77,472
Reclassification (note (ii))	—	(6,750)	6,750	—
Charge for the year	13,731	—	18,274	32,005
Release during the year	—	(1,609)	(10,230)	(11,839)
Unwinding of discount	—	—	(1,939)	(1,939)
Transfers out (note (i))	—	(22)	(485)	(507)
Write-offs	—	(620)	(5,815)	(6,435)
Recoveries	—	—	87	87
As at 31 December	35,733	4,928	48,183	88,844

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Movements of allowances for impairment losses (continued)

Notes:

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

(ii) As at and prior to 31 December 2006 the impairment allowance for corporate loans and advances graded at substandard was collectively assessed. With effect from 1 January 2007, the Group commenced to individually assess the impairment allowance for corporate loans and advances graded at substandard. Consequently, a reclassification of the opening balance of the collective impairment allowance of the respective loans and advances has been made to the individual impairment allowances.

(d) Analysed by legal form of borrowers

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Corporate loans				
— State-owned enterprises	**1,182,542**	1,088,893	**1,182,488**	1,088,857
— Joint-stock enterprises	**442,302**	416,011	**438,407**	416,011
— Private enterprises	**475,319**	417,631	**475,319**	417,631
— Foreign invested enterprises	**273,440**	263,387	**273,420**	263,385
— Collectively-controlled enterprises	**40,317**	37,636	**40,317**	37,636
— Jointly-owned enterprises	**17,009**	17,832	**17,009**	17,832
— Others	**191,008**	187,137	**181,271**	172,105
Subtotal	**2,621,937**	2,428,527	**2,608,231**	2,413,457
Finance leases	**2,020**	812	**—**	—
Personal loans and advances	**796,219**	739,588	**772,536**	723,770
Discounted bills	**117,361**	103,230	**117,361**	102,906
Gross loans and advances to customers	**3,537,537**	3,272,157	**3,498,128**	3,240,133
Less: Allowances for impairment losses	**(91,572)**	(88,928)	**(91,497)**	(88,844)
Net loans and advances to customers	**3,445,965**	3,183,229	**3,406,631**	3,151,289

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS (continued)

(e) Overdue loans analysed by overdue period

Group

	As at 30 June 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	766	938	1,027	1,399	4,130
Guaranteed loans	3,438	2,933	8,262	6,418	21,051
Loans secured by tangible assets other than monetary assets	30,534	11,292	12,845	9,634	64,305
Loans secured by monetary assets	1,189	1,886	1,980	861	5,916
Total	35,927	17,049	24,114	18,312	95,402
As a percentage of total loans and advances to customers	1.02%	0.48%	0.68%	0.52%	2.70%

	As at 31 December 2007				
	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	346	1,084	1,120	1,985	4,535
Guaranteed loans	2,141	3,283	11,958	7,861	25,243
Loans secured by tangible assets other than monetary assets	20,532	9,624	15,697	9,774	55,627
Loans secured by monetary assets	903	873	2,765	999	5,540
Total	23,922	14,864	31,540	20,619	90,945
As a percentage of total loans and advances to customers	0.73%	0.46%	0.96%	0.63%	2.78%

(Expressed in millions of Renminbi unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS (continued)

(e) Overdue loans analysed by overdue period (continued)

Bank

	As at 30 June 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	761	938	1,027	1,399	4,125
Guaranteed loans	3,438	2,933	8,262	6,418	21,051
Loans secured by tangible assets other than monetary assets	30,508	11,292	12,845	9,634	64,279
Loans secured by monetary assets	1,189	1,886	1,980	861	5,916
Total	35,896	17,049	24,114	18,312	95,371
As a percentage of total loans and advances to customers	1.03%	0.49%	0.69%	0.52%	2.73%

	As at 31 December 2007				
	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	340	1,084	1,119	1,985	4,528
Guaranteed loans	2,141	3,283	11,958	7,861	25,243
Loans secured by tangible assets other than monetary assets	20,466	9,609	15,693	9,774	55,542
Loans secured by monetary assets	903	873	2,765	999	5,540
Total	23,850	14,849	31,535	20,619	90,853
As a percentage of total loans and advances to customers	0.74%	0.46%	0.97%	0.64%	2.81%

Overdue loans represent loans of which the whole or part of the principal was overdue, or interest was overdue for more than 90 days but for which the principal was not yet due.

(Expressed in millions of Renminbi unless otherwise stated)

17 INVESTMENT SECURITIES

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Debt securities classified as receivables (Note 17(a))	**551,859**	551,336	**551,859**	551,336
Held-to-maturity debt securities (Note 17(b))	**1,133,461**	1,191,035	**1,133,063**	1,190,425
Available-for-sale				
— debt securities (Note 17(c))	**449,140**	395,051	**447,638**	393,207
— equity investments (Note 17(d))	**21,795**	34,569	**21,358**	34,089
	470,935	429,620	**468,996**	427,296
Total	**2,156,255**	2,171,991	**2,153,918**	2,169,057

(a) Debt securities classified as receivables

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

	Group and Bank	
	As at 30 June 2008	As at 31 December 2007
Government		
— special government bond (note(i) & (iii))	**49,200**	49,200
— others	**530**	530
The PBC (note(ii) & (iii))	**189,893**	189,871
Policy banks	**48,953**	48,953
Cinda (note(iv))	**247,000**	247,000
Banks and non-bank financial institutions	**14,987**	15,122
Joint-stock enterprises	**1,369**	1,369
	551,932	552,045
Less: Allowances for impairment losses	**(73)**	(709)
Total	**551,859**	551,336

The movement of allowances for impairment losses is as follows:

As at 1 January	**709**	600
(Write back)/charge for the six months/year	**(636)**	109
As at 30 June/31 December	**73**	709

17 INVESTMENT SECURITIES (continued)

(a) Debt securities classified as receivables (continued)

Notes:

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

(ii) Due from the PBC includes:

— 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 the PBC bill. The bill matures in June 2009 and bears interest at a fixed rate of 1.89% per annum. The PBC has the right to early settle the bill; and

— a non-transferable bill with a nominal value 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.

(iii) 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.

(iv) 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)

17 INVESTMENT SECURITIES (continued)

(b) Held-to-maturity debt securities

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Issued by entities in Mainland China				
— Government	**321,244**	316,432	**321,234**	316,422
— The PBC	**392,954**	442,456	**392,817**	442,239
— Policy banks	**292,172**	250,575	**291,921**	250,575
— Banks and non-bank financial institutions	**20,406**	18,915	**20,406**	18,532
— State-owned enterprises	**6,276**	6,134	**6,276**	6,134
— Joint-stock enterprises	**2,908**	4,071	**2,908**	4,071
Issued by overseas entities				
— Governments	**21,629**	24,176	**21,629**	24,176
— Policy banks	**3,860**	2,111	**3,860**	2,111
— Banks and non-bank financial institutions	**53,744**	79,733	**53,744**	79,733
— Public sector entities	**21,445**	48,174	**21,445**	48,174
— Others	**2,474**	3,300	**2,474**	3,300
Gross balances	**1,139,112**	1,196,077	**1,138,714**	1,195,467
Less: Allowances for impairment losses	**(5,651)**	(5,042)	**(5,651)**	(5,042)
Total	**1,133,461**	1,191,035	**1,133,063**	1,190,425

The movement of allowances for impairment losses is as follows:

As at 1 January	**5,042**	207	**5,042**	207
Charge for the six months/year	**989**	4,853	**989**	4,853
Write-offs	**(50)**	(18)	**(50)**	(18)
Effect of exchange difference	**(330)**	—	**(330)**	—
As at 30 June/31 December	**5,651**	5,042	**5,651**	5,042

(Expressed in millions of Renminbi unless otherwise stated)

17 INVESTMENT SECURITIES (continued)

(b) Held-to-maturity debt securities (continued)

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Listed in Hong Kong	**4,347**	4,165	**4,347**	4,165
Listed outside Hong Kong	**51,782**	73,712	**51,782**	73,712
Unlisted	**1,077,332**	1,113,158	**1,076,934**	1,112,548
Total	**1,133,461**	1,191,035	**1,133,063**	1,190,425
Market value of listed debt securities	**52,517**	78,861	**52,517**	78,861

(c) Available-for-sale debt securities

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Issued by entities in Mainland China				
— Government	**29,346**	29,296	**29,346**	29,296
— The PBC	**274,183**	177,308	**274,183**	177,308
— Policy banks	**43,320**	44,587	**43,320**	44,587
— Banks and non-bank financial institutions	**1,986**	2,794	**1,986**	2,794
— State-owned enterprises	**12,027**	6,144	**12,027**	6,144
— Joint-stock enterprises	**4,348**	20,332	**4,348**	20,176
Issued by overseas entities				
— Governments	**14,491**	17,105	**14,491**	16,919
— Central banks	**439**	280	**263**	280
— Policy banks	**1,541**	1,610	**1,541**	1,610
— Banks and non-bank financial institutions	**53,899**	64,585	**52,651**	63,174
— Public sector entities	**6,998**	22,035	**6,995**	22,028
— Others	**6,562**	8,975	**6,487**	8,891
Total	**449,140**	395,051	**447,638**	393,207

(Expressed in millions of Renminbi unless otherwise stated)

17 INVESTMENT SECURITIES (continued)

(c) Available-for-sale debt securities (continued)

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Listed in Hong Kong	**588**	718	**555**	676
Listed outside Hong Kong	**39,167**	49,306	**38,222**	49,164
Unlisted	**409,385**	345,027	**408,861**	343,367
Total	**449,140**	395,051	**447,638**	393,207

(d) Available-for-sale equity investments

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Debt equity swap investments (note(i) & (ii))	**20,036**	32,858	**20,036**	32,858
Other equity investments	**1,759**	1,711	**1,322**	1,231
Total	**21,795**	34,569	**21,358**	34,089

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Listed in Hong Kong	**882**	772	**882**	772
Listed outside Hong Kong	**15,459**	27,665	**15,370**	27,665
Unlisted	**5,454**	6,132	**5,106**	5,652
Total	**21,795**	34,569	**21,358**	34,089

For the six months ended 30 June 2008, the Group recognised an impairment loss of debt equity swap investments of RMB107 million (for the six months ended 30 June 2007: RMB23 million) in the income statement (Note 10).

17 INVESTMENT SECURITIES (continued)

(d) Available-for-sale equity investments (continued)

Notes:

(i) 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.

(ii) 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. For the six months ended 30 June 2008, the decrease in fair value was RMB12,294 million (before adjusting for the deferred tax effect) and RMB9,221 million (after adjusting for the deferred tax effect) was debited to revaluation reserve. The Group calculated the fair value for listed A shares with no disposal restriction based on the quoted market price at the balance sheet date.

(Expressed in millions of Renminbi unless otherwise stated)

18 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. Unless otherwise stated, the class of all shares held is ordinary. All of these companies are subsidiaries as defined under Note 1(c) and have been included in the scope of the consolidated financial statements of the Group.

Name of company	Place of incorporation and operation	Particulars of the issued and paid up capital	% of ownership directly held by the Bank	% of ownership indirectly held by the Bank	Principal activities
Sing Jian Development Company Limited (formerly known as China Construction Bank (Asia) Limited)	Hong Kong	300 million shares of HK$1 each	100%	—	Investment
Sino-German Bausparkasse Co., Ltd. ("SGB")	the PRC, limited liability company	RMB400 million	75.1%	—	Home mortgage loan and deposit taking business
CCB Principal Asset Management Co., Ltd.	the PRC, limited liability company	RMB200 million	65%	—	Fund management services
CCB International Group Holdings Limited ("CCBIG")	Hong Kong	1 share of HK$1 each	100%	—	Investment
CCB Financial Leasing Corporation Limited ("CCB Leasing")	the PRC, joint stock company	4,500 million shares of RMB1 each	75.1%	—	Financial leasing
China Construction Bank (Asia) Corporation Limited ("CCB Asia")	Hong Kong	7.75 million shares of HK$40 each	—	100%	Commercial banking and related financial services
CCB International (Holdings) Limited ("CCB International")	Hong Kong	301 million shares of US$1 each	—	100%	Investment
Lanhye Investment Holdings Limited	BVI	1 share of US$1 each	—	100%	Investment

In January and February 2008, the Bank and Bausparkasse Schwaebische Hall of Germany ("BSHG") paid cash of RMB187.75 million and equivalent to RMB62.25 million as the additional capital contribution to SGB respectively. The registered capital of SGB increased to RMB400 million after the additional capital contribution. There was no change in the percentage of the Bank's ownership in SGB.

(Expressed in millions of Renminbi unless otherwise stated)

19 INTERESTS IN ASSOCIATE AND JOINTLY CONTROLLED ENTITY

The associate and jointly controlled entity of the Group are unlisted enterprises; details of which are as follows:

Name of company	Place of incorporation	Particulars of issued and paid up capital	% of ownership indirectly held by the Group	Principal activities
QBE Hong Kong and Shanghai Insurance Limited	Hong Kong	19.9 million ordinary shares of HK$1 each	25.50%	Insurance
Diamond String Limited ("DSL")	Hong Kong	10,000 ordinary shares of HK$1 each	50.00%	Property investment

The Group completed the further acquisition of 10% of the issued share capital of DSL in the second quarter of 2008. DSL became a jointly controlled entity of the Group since then.

20 PROPERTY AND EQUIPMENT

(a) Group

	Bank premises (Note 20(c))	Construction in progress	Computer equipment	Others	Total
Cost or deemed cost:					
As at 1 January 2008	43,728	1,990	17,787	12,136	75,641
Additions	872	1,846	910	738	4,366
Disposals	(165)	(3)	(343)	(533)	(1,044)
Transfers	192	(578)	14	372	—
As at 30 June 2008	44,627	3,255	18,368	12,713	78,963
Accumulated depreciation and impairment losses:					
As at 1 January 2008	(6,788)	(5)	(7,999)	(2,562)	(17,354)
Depreciation charges	(874)	—	(1,724)	(1,388)	(3,986)
Impairment losses	(20)	—	—	(1)	(21)
Disposals	42	—	267	430	739
As at 30 June 2008	(7,640)	(5)	(9,456)	(3,521)	(20,622)
Net carrying value:					
As at 30 June 2008	36,987	3,250	8,912	9,192	58,341

(Expressed in millions of Renminbi unless otherwise stated)

20 PROPERTY AND EQUIPMENT (continued)

(a) Group (continued)

	Bank premises (Note 20(c))	Construction in progress	Computer equipment	Others	Total
Cost or deemed cost:					
As at 1 January 2007	41,512	1,548	14,629	8,630	66,319
Additions	2,037	2,407	4,444	3,474	12,362
Disposals	(331)	(68)	(1,561)	(1,080)	(3,040)
Transfers	510	(1,897)	275	1,112	—
As at 31 December 2007	43,728	1,990	17,787	12,136	75,641
Accumulated depreciation and impairment losses:					
As at 1 January 2007	(5,204)	(5)	(6,554)	(1,519)	(13,282)
Depreciation charges	(1,665)	—	(2,959)	(2,111)	(6,735)
Impairment losses	(34)	—	—	—	(34)
Disposals	115	—	1,514	1,068	2,697
As at 31 December 2007	(6,788)	(5)	(7,999)	(2,562)	(17,354)
Net carrying value:					
As at 31 December 2007	36,940	1,985	9,788	9,574	58,287

(b) Bank

	Bank premises (Note 20(c))	**Construction in progress**	**Computer equipment**	**Others**	**Total**
Cost or deemed cost:					
As at 1 January 2008	**43,656**	**1,990**	**17,645**	**11,979**	**75,270**
Additions	**857**	**1,815**	**886**	**714**	**4,272**
Disposals	**(161)**	**(3)**	**(321)**	**(500)**	**(985)**
Transfers	**192**	**(578)**	**14**	**372**	**–**
As at 30 June 2008	**44,544**	**3,224**	**18,224**	**12,565**	**78,557**
Accumulated depreciation and impairment losses:					
As at 1 January 2008	**(6,765)**	**(5)**	**(7,918)**	**(2,488)**	**(17,176)**
Depreciation charges	**(864)**	**–**	**(1,713)**	**(1,384)**	**(3,961)**
Impairment losses	**(20)**	**–**	**–**	**(1)**	**(21)**
Disposals	**42**	**–**	**265**	**423**	**730**
As at 30 June 2008	**(7,607)**	**(5)**	**(9,366)**	**(3,450)**	**(20,428)**
Net carrying value:					
As at 30 June 2008	**36,937**	**3,219**	**8,858**	**9,115**	**58,129**

(Expressed in millions of Renminbi unless otherwise stated)

20 PROPERTY AND EQUIPMENT (continued)

(b) Bank (continued)

	Bank premises (Note 20(c))	Construction in progress	Computer equipment	Others	Total
Cost or deemed cost:					
As at 1 January 2007	41,401	1,548	14,520	8,528	65,997
Additions	2,037	2,407	4,396	3,408	12,248
Disposals	(292)	(68)	(1,546)	(1,069)	(2,975)
Transfers	510	(1,897)	275	1,112	—
As at 31 December 2007	43,656	1,990	17,645	11,979	75,270
Accumulated depreciation and impairment losses:					
As at 1 January 2007	(5,183)	(5)	(6,472)	(1,453)	(13,113)
Depreciation charges	(1,661)	—	(2,945)	(2,094)	(6,700)
Impairment losses	(34)	—	—	—	(34)
Disposals	113	—	1,499	1,059	2,671
As at 31 December 2007	(6,765)	(5)	(7,918)	(2,488)	(17,176)
Net carrying value:					
As at 31 December 2007	36,891	1,985	9,727	9,491	58,094

As at 30 June 2008, ownership documentation for the Group's and the Bank's bank premises with a net carrying value of RMB4,171 million (as at 31 December 2007: RMB3,845 million) was being finalised.

(c) Analysed by remaining term of 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	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Long-term leases (over 50 years), held overseas	**234**	94	**184**	45
Medium-term leases (10–50 years), held in Mainland China	**36,470**	36,551	**36,470**	36,551
Short-term leases (less than 10 years), held in Mainland China	**283**	295	**283**	295
Total	**36,987**	36,940	**36,937**	36,891

(Expressed in millions of Renminbi unless otherwise stated)

21 GOODWILL

	Group	
	As at 30 June 2008	As at 31 December 2007
As at 1 January	**1,624**	1,743
Effect of exchange difference	**(99)**	(119)
As at 30 June/31 December	**1,525**	1,624

Impairment test for cash-generating unit containing goodwill

The goodwill arose from the acquisition of CCB Asia on 29 December 2006 is allocated to the Group's cash-generating unit ("CGU").

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a ten-year period. Cash flows beyond the ten-year period are extrapolated using the estimate rates stated below. The weighted average growth rates used by the Group are consistent with the forecasts included in industry reports. The discount rates used reflect specific risks relating to the relevant segments.

Key assumptions used for value-in-use calculations:

	As at 30 June 2008	As at 31 December 2007
Growth rate after the ten-year period	**5.0%**	5.0%
Discount rate	**9.0%**	9.0%

22 DEFERRED TAX

(a) Analysed by nature

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Deferred tax assets	**2,486**	35	**2,671**	33
Deferred tax liabilities	**(5)**	(771)	**–**	(602)
Net balance	**2,481**	(736)	**2,671**	(569)

(Expressed in millions of Renminbi unless otherwise stated)

22 DEFERRED TAX (continued)

(b) Movements of deferred tax

The components of deferred tax assets/(liabilities) recognised in the balance sheet and the movements during the period/year are as follows:

Group

	In Mainland China				Overseas		
	Amortisation of subordinated bonds issue costs	Fair value adjustments for securities	Allowances for loans and advances to customers	Others	Fair value adjustments for securities	Others	Deferred tax assets/ (liabilities)
As at 1 January 2008	**(18)**	**(7,234)**	**4,560**	**1,915**	**32**	**9**	**(736)**
Recognised in income statement	**1**	**(1,280)**	**1,532**	**(142)**	**–**	**14**	**125**
Recognised in equity	**–**	**3,026**	**–**	**–**	**66**	**–**	**3,092**
As at 30 June 2008	**(17)**	**(5,488)**	**6,092**	**1,773**	**98**	**23**	**2,481**
As at 1 January 2007	(27)	645	2,064	–	(25)	19	2,676
Recognised in income statement	3	(1,740)	2,708	1,915	–	(10)	2,876
Recognised in equity	–	(5,990)	–	–	53	–	(5,937)
Effect of change in tax rate							
– Recognised in income statement	6	–	(212)	–	–	–	(206)
– Recognised in equity	–	(149)	–	–	4	–	(145)
As at 31 December 2007	(18)	(7,234)	4,560	1,915	32	9	(736)

(Expressed in millions of Renminbi unless otherwise stated)

22 DEFERRED TAX (continued)

(b) Movements of deferred tax (continued)

Bank

	In Mainland China				Overseas		
	Amortisation of subordinated bonds issue costs	Fair value adjustments for securities	Allowances for loans and advances to customers	Others	Fair value adjustments for securities	Others	Deferred tax assets/ (liabilities)
As at 1 January 2008	**(18)**	**(7,223)**	**4,560**	**1,915**	**32**	**165**	**(569)**
Recognised in income statement	**1**	**(1,297)**	**1,532**	**(142)**	**–**	**54**	**148**
Recognised in equity	**–**	**3,026**	**–**	**–**	**66**	**–**	**3,092**
As at 30 June 2008	**(17)**	**(5,494)**	**6,092**	**1,773**	**98**	**219**	**2,671**
As at 1 January 2007	(27)	645	2,064	–	(25)	–	2,657
Recognised in income statement	3	(1,729)	2,708	1,915	–	165	3,062
Recognised in equity	–	(5,990)	–	–	53	–	(5,937)
Effect of change in tax rate							
– Recognised in income statement	6	–	(212)	–	–	–	(206)
– Recognised in equity	–	(149)	–	–	4	–	(145)
As at 31 December 2007	(18)	(7,223)	4,560	1,915	32	165	(569)

Note: 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)

23 OTHER ASSETS

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Interest receivable				
— Debt securities	**30,561**	24,083	**30,541**	24,070
— Loans and advances to customers	**9,737**	8,391	**9,667**	8,323
— Others	**1,305**	1,426	**1,272**	1,399
	41,603	33,900	**41,480**	33,792
Land use rights	**17,408**	17,650	**17,340**	17,578
Repossessed assets (note)	**1,622**	1,616	**1,621**	1,604
— Land	**321**	351	**321**	351
— Buildings	**953**	929	**952**	917
— Others	**348**	336	**348**	336
Intangible assets	**1,012**	1,134	**998**	1,129
Others	**17,114**	13,394	**16,328**	12,516
Total	**78,759**	67,694	**77,767**	66,619

Note: During the six months ended 30 June 2008, the original cost of repossessed assets disposed by the Group amounted to RMB366 million (for the six months ended 30 June 2007: RMB665 million). The Group intends to dispose repossessed assets through various methods including auction, competitive bidding, disposal, etc.

24 AMOUNTS DUE TO CENTRAL BANKS

(a) Analysed by nature

	Group and Bank	
	As at 30 June 2008	As at 31 December 2007
Balances under repurchase agreements	**1,356**	50,967
Deposits	**6**	6
Total	**1,362**	50,973

(Expressed in millions of Renminbi unless otherwise stated)

24 AMOUNTS DUE TO CENTRAL BANKS (continued)

(b) Analysed by legal form of counterparty

	Group and Bank	
	As at 30 June 2008	As at 31 December 2007
Balances with		
— The PBC	**6**	50,006
— Overseas central banks	**1,356**	967
Total	**1,362**	50,973

25 AMOUNTS DUE TO BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(a) Analysed by nature

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Balances under repurchase agreements	**44,483**	58,574	**44,483**	58,574
Money market takings	**77,401**	30,924	**75,381**	30,069
Deposits	**479,189**	516,563	**479,078**	516,433
Total	**601,073**	606,061	**598,942**	605,076

(b) Analysed by legal form of counterparty

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Balances with				
— PRC policy banks	**16,197**	786	**16,197**	786
— PRC state-owned banks and non-bank financial institutions	**163,317**	68,090	**163,317**	68,090
— PRC joint-stock banks and non-bank financial institutions	**345,265**	444,548	**345,265**	444,539
— Foreign-invested banks and non-bank financial institutions	**76,294**	92,637	**74,163**	91,661
Total	**601,073**	606,061	**598,942**	605,076

(Expressed in millions of Renminbi unless otherwise stated)

26 TRADING LIABILITIES

	Group and Bank	
	As at 30 June 2008	As at 31 December 2007
Structured deposits	**7,519**	10,809

As at 30 June 2008 and 31 December 2007, the trading liabilities of the Group and the Bank represented the structured deposits from customers designated at fair value through profit or loss. As at 30 June 2008, the fair value of structured deposits was less than the contractual payables at maturity by RMB24 million (as at 31 December 2007: RMB19 million).

27 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Demand deposits				
— Corporate customers	**2,130,469**	2,130,411	**2,127,898**	2,128,826
— Personal customers	**1,036,637**	1,000,525	**1,032,188**	997,196
	3,167,106	3,130,936	**3,160,086**	3,126,022
Time deposits				
— Corporate customers	**1,021,282**	858,045	**1,012,032**	846,960
— Personal customers	**1,593,185**	1,340,526	**1,576,856**	1,324,006
	2,614,467	2,198,571	**2,588,888**	2,170,966
Total	**5,781,573**	5,329,507	**5,748,974**	5,296,988

(Expressed in millions of Renminbi unless otherwise stated)

28 OTHER LIABILITIES AND PROVISIONS

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Interest payable				
— Deposits from customers	**49,204**	37,460	**49,135**	37,360
— Others	**2,166**	1,442	**2,070**	1,423
	51,370	38,902	**51,205**	38,783
Salaries and welfare payables (Note 28(a) and 29(a))	**10,366**	7,590	**10,218**	7,350
Early retirement expenses (Note 29(c))	**8,495**	8,998	**8,495**	8,998
Supplementary retirement benefits (Note 29(b))	**6,089**	6,159	**6,089**	6,159
Payables to Jianyin (Note 28(b) and 39(a))	**5,478**	6,471	**5,478**	6,471
Dividend payable	**15,190**	—	**15,190**	—
Business tax, surcharges and other tax payables	**5,181**	5,492	**5,168**	5,479
Dormant accounts	**4,871**	4,679	**4,871**	4,679
Securities underwriting and redemption payable	**4,476**	1,951	**4,476**	1,951
Provisions (Note 28(c))	**1,761**	1,656	**1,761**	1,656
Settlement accounts	**1,747**	602	**1,441**	205
Payment and collection clearance account	**702**	1,027	**702**	1,027
Others	**11,045**	9,062	**10,617**	8,271
Total	**126,771**	92,589	**125,711**	91,029

(a) Salaries and welfare payables

The payables to defined contribution retirement schemes included under salaries and welfare payables at the balance sheet date are as follows:

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Payables to defined contribution retirement schemes and annuity	**1,171**	1,115	**1,163**	1,106

(b) Payables to Jianyin

The balance as at 30 June 2008 included a payable of RMB5,353 million (as at 31 December 2007: RMB5,353 million) relating to a receipt of a bill issued by the PBC of RMB21,000 million less advances made and expenses incurred by CCB for the liquidation of a trust and investment company as mandated by the State Council and the PBC, plus the interest accrual on such excess portion.

(Expressed in millions of Renminbi unless otherwise stated)

28 OTHER LIABILITIES AND PROVISIONS (continued)

(c) Provisions

	Group and Bank	
	As at 30 June 2008	As at 31 December 2007
As at 1 January	**1,656**	1,637
Charge for the six months/year	**159**	332
Payments made	**(54)**	(313)
As at 30 June/31 December	**1,761**	1,656

Note: The balance as at 30 June 2008 included litigation provisions of RMB1,211 million (as at 31 December 2007: RMB1,309 million) and other provisions of RMB550 million (as at 31 December 2007: RMB347 million).

29 RETIREMENT BENEFITS

(a) Statutory retirement schemes

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees in Mainland China. The Group is required to make contributions to a separate entity which could be the government or publicly administered retirement schemes at certain rates of the salaries, bonuses and certain allowances of its employees. A member of the schemes is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date.

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.

(b) Supplementary retirement benefits

The Group pays supplementary retirement benefits for its employees in Mainland China who retired on or before 31 December 2003 ("Eligible Employees"). The amounts recognised in the balance sheet represent the present value of unfunded obligations and any cumulative unrecognised actuarial gains or losses less than 10% of the present value of the obligations at the balance sheet date.

(Expressed in millions of Renminbi unless otherwise stated)

29 RETIREMENT BENEFITS (continued)

(b) Supplementary retirement benefits (continued)

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 the Society of Actuaries of the United State of America) of an external independent actuary: Towers, Perrin, Forster & Crosby, Inc., Hong Kong.

Net liabilities recognised in the balance sheet represent:

	Group and Bank	
	As at 30 June 2008	As at 31 December 2007
Present value of supplementary retirement benefit obligations	**6,504**	6,588
Unrecognised actuarial losses	**(415)**	(429)
As at 30 June/31 December	**6,089**	6,159

Movements in supplementary retirement benefits are as follows:

	Group and Bank	
	As at 30 June 2008	As at 31 December 2007
As at 1 January	**6,159**	5,889
Payment made	**(213)**	(429)
Expenses recognised in the income statement		
— Interest cost	**143**	194
— Past service costs	**—**	505
As at 30 June/31 December	**6,089**	6,159

Interest cost was recognised in other general and administrative expenses.

Principal actuarial assumptions as at the balance sheet date:

	Group and Bank	
	As at 30 June 2008	As at 31 December 2007
Discount rate	**4.50%**	4.50%
Health care cost increases	**7.00%**	7.00%
Average expected future lifetime of eligible employees	**15.5 years**	15.7 years

(Expressed in millions of Renminbi unless otherwise stated)

29 RETIREMENT BENEFITS (continued)

(c) Early retirement expenses

Early retirement expenses represent the liabilities to employees who agreed to retire early in return for certain future payments.

Movements in early retirement expenses are as follows:

	Group and Bank	
	As at 30 June 2008	As at 31 December 2007
As at 1 January	**8,998**	—
Payment made	**(683)**	—
Expenses recognised in the income statement		
— Interest cost	**180**	—
— Past service costs	**—**	8,998
As at 30 June/31 December	**8,495**	8,998

Interest cost was recognised in other general and administrative expenses.

Principal actuarial assumptions as at the balance sheet date:

	Group and Bank	
	As at 30 June 2008	As at 31 December 2007
Discount rate	**4.00%**	4.00%
Early retirement expenses increases	**8.00%**	8.00%
Average expected future lifetime of early retired employees	**5.2 years**	5.7 years

The Group has no other material obligations for the payment of its employees' retirement and other post retirement benefits other than the contributions described above.

(Expressed in millions of Renminbi unless otherwise stated)

30 SUBORDINATED BONDS ISSUED

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

		Group and Bank	
	Note	**As at 30 June 2008**	As at 31 December 2007
4.87% subordinated fixed rate bonds maturing in August 2014	(i)	**11,140**	11,140
Subordinated floating rate bonds maturing in August 2014	(ii)	**3,860**	3,860
4.95% subordinated fixed rate bonds maturing in September 2014	(iii)	**8,300**	8,300
Subordinated floating rate bonds maturing in December 2014	(iv)	**6,078**	6,078
4.95% subordinated fixed rate bonds maturing in December 2014	(v)	**10,622**	10,622
Total nominal value		**40,000**	40,000
Less: Unamortised issuance cost		**(67)**	(72)
Net carrying value		**39,933**	39,928

Notes:

(i) 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.

(ii) The interest rate per annum on the subordinated floating rate bonds issued in August 2004 is the PBC one-year fixed deposit rate, which is reset annually, plus an interest margin of 2.00%. 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.

(iii) 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.

(iv) The interest rate per annum on the subordinated floating rate bonds issued in December 2004 is the weighted 7-day repo rate quoted in the PRC interbank money market plus an interest margin of 2.00%. It is reset every six months. 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 3.00% per annum from 27 December 2009 for the next five years.

(v) 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.

(Expressed in millions of Renminbi unless otherwise stated)

31 EQUITY

(a) Share capital

	As at 30 June 2008		As at 31 December 2007	
	No. of shares	**Amount**	No. of shares	Amount
Registered, issued and fully paid:				
Ordinary shares of RMB1 each:				
As at 1 January	**233,689**	**233,689**	224,689	224,689
Shares issued	**–**	**–**	9,000	9,000
As at 30 June/31 December	**233,689**	**233,689**	233,689	233,689

On 25 September 2007, a total of 9,000 million A shares with a par value of RMB1 each were issued by the Bank at a subscription price of RMB6.45 per share.

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

(b) Capital reserve

The capital reserve generally records transactions of the following nature:

(i) share premium arising from the issuance of shares at prices in excess of their par value; and

(ii) any other item required by PRC regulations to be so treated.

Capital reserve may be used for increasing paid-in capital as approved by the shareholders in general meeting.

Share premium on issue of shares are credited to capital reserve.

(c) Surplus reserves

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 (“PRC GAAP”), 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.

(d) Investment revaluation reserve

The investment revaluation reserve recorded the changes in fair value of the available-for-sale financial assets.

(Expressed in millions of Renminbi unless otherwise stated)

31 EQUITY (continued)

(e) General reserve

The general reserve of the Group and the Bank at balance sheet date is set up based upon the requirements of:

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
MOF (note (i))	**46,093**	31,093	**46,093**	31,093
Hong Kong Banking Ordinance (note (ii))	**432**	422	**105**	105
Other regulatory body in PRC (note (iii))	**45**	30	**—**	—
Other overseas regulatory bodies	**3**	3	**2**	2
	46,573	31,548	**46,200**	31,200

Notes:

(i) Pursuant to notices, the "Measures for Administering the Withdrawal of Reserves for Non-performing Debts by Financial Enterprises" (Cai Jin [2005] No. 49) issued by the MOF on 17 May 2005 and the "Application Guidance of Financing Measures for Financial Institutions" (Cai Jin [2007] No. 23) issued by the MOF on 30 March 2007, banks and certain non-bank financial institutions in Mainland China are required to set aside a general reserve (in addition to allowances for impairment losses) to cover potential losses against their assets. The provision ratio for the general reserve is determined by financial institutions, with reference to the confronted risk factors. In principle, the general reserve balance should not be lower than 1% of the ending balance of gross risk-bearing assets. The general reserve forms part of the equity of the financial institution, and transfers to it are made through appropriations of profit after tax.

The MOF issued another notice, the "Answers to the Questions on Impairment Loss on Loans" (Cai Jin [2005] No. 90) on 5 September 2005. This notice requires financial institutions to set aside the required general reserve within a transitional period of approximately three years, but not more than five years, from 1 July 2005. Management considers that the Bank has complied with the above requirements by 30 June 2008.

(ii) Paragraph 9 of the Seventh Schedule to the Hong Kong Banking Ordinance requires the Group's banking operations in Hong Kong 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 directly through retained earnings.

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

(f) Exchange reserve

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

(g) Distributability of reserves

As at 30 June 2008, the aggregate amount of reserves available for distribution to shareholders of the Bank was RMB51,629 million (as at 31 December 2007: RMB30,190 million).

(h) Profit attributable to shareholders of the Bank

The consolidated profit attributable to shareholders of the Bank includes a profit of RMB57,366 million (for the six months ended 30 June 2007: RMB33,550 million) which has been dealt with in the financial statements of the Bank.

(Expressed in millions of Renminbi unless otherwise stated)

32 PROFIT DISTRIBUTIONS

(a) Profit appropriations and distributions other than dividends declared during the period/year

	Group		
	Six months ended 30 June 2008	Year ended 31 December 2007	Six months ended 30 June 2007
Appropriations to			
— Statutory surplus reserve fund	**–**	6,712	3,355
— General reserve	**15,025**	21,205	21,022
	15,025	27,917	24,377

	Bank		
	Six months ended 30 June 2008	Year ended 31 December 2007	Six months ended 30 June 2007
Appropriations to			
— Statutory surplus reserve fund	**–**	6,712	3,355
— General reserve	**15,000**	20,859	20,839
	15,000	27,571	24,194

(b) Cash dividends payable to shareholders of the Bank attributable to the period/year

	Six months ended 30 June 2008	Year ended 31 December 2007	Six months ended 30 June 2007
Interim cash dividend declared of RMB 0.067 per ordinary share (note (i))	**–**	15,054	15,054
Special cash dividend declared of RMB 0.072716 per ordinary share (note (ii))	**–**	16,339	16,339
Final cash dividend proposed of RMB 0.065 per ordinary share (note (iii))	**–**	15,190	—
	–	46,583	31,393

Notes:

(i) In accordance with the resolution approved in the Annual General Meeting of the Bank on 13 June 2007, 45% of the profit after tax for the six months ended 30 June 2007, as determined under PRC GAAP or IFRS, whichever is lower, was distributed in the form of cash dividend to the Bank's shareholders as at the relevant record date.

(Expressed in millions of Renminbi unless otherwise stated)

32 PROFIT DISTRIBUTIONS (continued)

(b) Cash dividends payable to shareholders of the Bank attributable to the period/year (continued)

Notes: (continued)

(ii) In addition to the interim cash dividend, in the Extraordinary General Meeting held on 23 August 2007, the shareholders approved the distribution of all the accumulated undistributed profits, as determined under PRC GAAP or IFRS, whichever is lower, of the Bank as at 30 June 2007 (after the 2007 interim dividend distribution as disclosed above) to all shareholders prior to the issuance of its A shares. The above special cash dividend was RMB0.072716 per share with an aggregate amount of RMB16,339 million.

(iii) In accordance with the resolution approved in the Annual General Meeting of the Bank on 12 June 2008, the total amount of approximately RMB15,190 million, 45% of the profit after tax for the six months from 1 July 2007 to 31 December 2007, as determined under PRC GAAP or IFRS, whichever is lower, was declared in the form of cash dividend to the Bank's shareholders as at 23 June 2008.

(c) Dividends payable to shareholders of the Bank attributable to the previous year, approved and paid during the period/year

	Group		
	Six months ended 30 June 2008	Year ended 31 December 2007	Six months ended 30 June 2007
Final cash dividend RMB0.065 per ordinary share (2007: RMB0.092 per ordinary share)	**15,190**	20,671	20,671

33 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Cash and cash equivalents

	As at 30 June 2008	As at 31 December 2007	As at 30 June 2007
Cash	**29,014**	32,240	27,927
Surplus deposit reserves	**84,811**	74,938	102,453
Amounts due from banks and non-bank financial institutions	**125,201**	102,393	94,746
Less:			
— Amounts due over three months when acquired	**(31,704)**	(15,468)	(10,051)
— Balances under resale agreements	**(64,048)**	(13,595)	(56,907)
	29,449	73,330	27,788
Total	**143,274**	180,508	158,168

(b) Acquisition of jointly controlled entity

In the first half year of 2008, the Group acquired the issued share capital of DSL with the payment of RMB415 million.

(Expressed in millions of Renminbi unless otherwise stated)

34 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

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

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

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

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Loan commitments				
— with an original maturity under one year	**53,293**	53,973	**45,012**	50,316
— with an original maturity of one year or over	**228,499**	213,543	**227,299**	213,541
Credit card commitments	**132,239**	99,086	**132,239**	99,086
	414,031	366,602	**404,550**	362,943
Bank acceptances	**172,724**	143,166	**172,528**	143,166
Financial guarantees	**180,528**	124,772	**179,952**	124,164
Non-financial guarantees	**315,699**	246,135	**315,657**	246,118
Sight letters of credit	**41,259**	34,486	**41,259**	33,874
Usance letters of credit	**71,209**	45,156	**70,823**	45,156
Others	**9,515**	9,242	**9,437**	9,144
	1,204,965	969,559	**1,194,206**	964,565

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	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Credit risk-weighted amounts of contingent liabilities and commitments	**661,796**	479,813	**660,642**	479,124

(Expressed in millions of Renminbi unless otherwise stated)

34 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(b) Capital commitments

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

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Contracted for	**6,121**	1,791	**6,111**	1,766

(c) 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. At the balance sheet date, the future minimum lease payments under non-cancellable operating leases for property and equipment were as follows:

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Within one year	**2,007**	1,838	**1,880**	1,718
After one year but within two years	**1,757**	1,444	**1,644**	1,371
After two years but within three years	**1,401**	1,282	**1,343**	1,223
After three years but within five years	**1,859**	1,616	**1,801**	1,519
After five years	**1,639**	1,437	**1,433**	1,215
Total	**8,663**	7,617	**8,101**	7,046

(d) Outstanding litigation and disputes

As at 30 June 2008, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB2,495 million (as at 31 December 2007: RMB2,557 million). Provisions have been made for the estimated losses of such litigation based upon the opinions of the Group's internal and external legal counsel (Note 28(c)). The Group considers that the provisions made are reasonable and adequate.

(e) Underwriting obligations

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

	Group and Bank	
	As at 30 June 2008	As at 31 December 2007
Underwriting obligations	**670**	10,950

34 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(f) 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	
	As at 30 June 2008	As at 31 December 2007
Redemption obligations	**97,590**	71,423

(g) Provision against commitments and contingent liabilities

The Group and the Bank have assessed and made provision for any probable outflow of economic benefits in relation to the above commitments and contingent liabilities in accordance with their accounting policies (Note 28(c)).

(Expressed in millions of Renminbi unless otherwise stated)

35 PLEDGED ASSETS

(a) Assets pledged as security

	Group and Bank	
	As at 30 June 2008	As at 31 December 2007
Secured liabilities	**45,839**	109,541
Carrying value of pledged assets analysed by asset type		
Government bonds	**46,472**	90,466
Corporate bonds	**–**	1,503
Policy bank bonds	**–**	17,828
	46,472	109,797
Carrying value of pledged assets analysed by balance sheet classification		
Available-for-sale debt securities	**16,757**	17,950
Held-to-maturity debt securities	**29,715**	87,127
Loans and advances to customers	**–**	4,720
	46,472	109,797

The related secured liabilities are recorded as amounts due to central banks, or amounts due to banks and non-bank financial institutions. These transactions are conducted under usual and customary terms of placements.

(b) Collateral accepted as securities for assets

The Group conducts resale agreements under usual and customary terms of placements, and holds collaterals for these transactions. As at 30 June 2008 and 31 December 2007, 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.

36 ENTRUSTED LENDING BUSINESS

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

	Group and Bank	
	As at 30 June 2008	As at 31 December 2007
Entrusted loans	**428,720**	382,761
Entrusted funds	**428,720**	382,761

37 SEGMENT REPORTING

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

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

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

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, 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 costs incurred during the period to acquire fixed assets, construction in progress, intangible assets and other long-term assets.

(a) Business segments

The Group comprises the following main business segments:

Corporate banking

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

Personal banking

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

Treasury business

This segment covers the 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 Bank's overall liquidity position, including the issuance of subordinated bonds.

Others and unallocated

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

(Expressed in millions of Renminbi unless otherwise stated)

37 SEGMENT REPORTING (continued)

(a) Business segments (continued)

	Six months ended 30 June 2008					
	Corporate banking	Personal banking	Treasury business	Others and unallocated	Elimination	Total
External net interest income/(expenses)	71,185	(6,352)	45,012	1,235	—	111,080
Internal net interest (expenses)/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 income arising from investment securities	—	—	758	888	—	1,646
Other operating income	98	—	253	1,124	—	1,475
Operating income	69,355	36,512	26,588	3,281	—	135,736
Operating expenses						
— depreciation and amortisation	(1,503)	(2,702)	(231)	(51)	—	(4,487)
— others	(18,372)	(20,052)	(1,555)	(1,727)	—	(41,706)
	(19,875)	(22,754)	(1,786)	(1,778)	—	(46,193)
	49,480	13,758	24,802	1,503	—	89,543
Provisions for impairment losses	(9,364)	(2,107)	(2,269)	(166)	—	(13,906)
Share of profit in associate and jointly controlled entity	—	—	—	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
	As at 30 June 2008					
Segment assets	2,978,088	856,908	3,059,538	—	(25,452)	6,869,082
Interests in associate and jointly controlled entity	—	—	—	1,722	—	1,722
Unallocated assets	—	—	—	186,902	—	186,902
Total assets	2,978,088	856,908	3,059,538	188,624	(25,452)	7,057,706
Segment liabilities	3,283,180	2,997,192	142,704	—	(25,452)	6,397,624
Unallocated liabilities	—	—	—	204,684	—	204,684
Total liabilities	3,283,180	2,997,192	142,704	204,684	(25,452)	6,602,308
Off-balance sheet credit commitments	1,063,551	141,414	—	—	—	1,204,965

(Expressed in millions of Renminbi unless otherwise stated)

37 SEGMENT REPORTING (continued)

(a) Business segments (continued)

	Six months ended 30 June 2007					
	Corporate banking	Personal banking	Treasury business	Others and unallocated	Elimination	Total
External net interest income/(expenses)	58,225	(2,729)	32,669	1,048	—	89,213
Internal net interest (expenses)/income	(7,471)	27,019	(18,239)	(1,309)	—	—
Net interest income/(expenses)	50,754	24,290	14,430	(261)	—	89,213
Net fee and commission income	3,121	7,905	1,264	370	—	12,660
Net trading gain	—	—	247	—	—	247
Dividend income	—	—	—	76	—	76
Net income arising from investment securities	—	—	134	415	—	549
Other operating income/(loss)	98	1	(3,608)	537	—	(2,972)
Operating income	53,973	32,196	12,467	1,137	—	99,773
Operating expenses						
— depreciation and amortisation	(1,435)	(2,113)	(260)	(46)	—	(3,854)
— others	(14,511)	(15,780)	(1,901)	(1,229)	—	(33,421)
	(15,946)	(17,893)	(2,161)	(1,275)	—	(37,275)
	38,027	14,303	10,306	(138)	—	62,498
Provisions for impairment losses	(10,043)	(1,605)	(139)	(182)	—	(11,969)
Share of profit in associate	—	—	—	13	—	13
Profit/(loss) before tax	27,984	12,698	10,167	(307)	—	50,542
Capital expenditure	730	1,075	132	26	—	1,963
	As at 31 December 2007					
Segment assets	2,748,782	786,851	2,960,545	—	(30,786)	6,465,392
Interests in associate	—	—	—	1,099	—	1,099
Unallocated assets	—	—	—	131,686	—	131,686
Total assets	2,748,782	786,851	2,960,545	132,785	(30,786)	6,598,177
Segment liabilities	3,218,771	2,673,979	178,398	—	(30,786)	6,040,362
Unallocated liabilities	—	—	—	135,534	—	135,534
Total liabilities	3,218,771	2,673,979	178,398	135,534	(30,786)	6,175,896
Off-balance sheet credit commitments	861,646	107,913	—	—	—	969,559

37 SEGMENT REPORTING (continued)

(b) Geographical segments

The Group operates principally in Mainland China with branches located in 31 provinces, autonomous regions and municipalities directly under the central government, and three subsidiaries located in Mainland China. The Group also has bank branch operations in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo and Seoul, and subsidiaries operating in Hong Kong.

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

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

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

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

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

— the "Central" region refers to the following areas serviced by the 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)

37 SEGMENT REPORTING (continued)

(b) Geographical segments (continued)

	Six months ended 30 June 2008									
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head office	Overseas	Elimination	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/(expenses)	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 income arising from investment securities	–	22	409	308	19	–	755	133	–	1,646
Other operating income	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										
– depreciation and amortisation	(828)	(572)	(698)	(780)	(679)	(328)	(571)	(31)	–	(4,487)
– others	(8,030)	(5,713)	(6,739)	(7,218)	(6,967)	(3,024)	(3,444)	(571)	–	(41,706)
	(8,858)	(6,285)	(7,437)	(7,998)	(7,646)	(3,352)	(4,015)	(602)	–	(46,193)
	17,369	10,854	12,579	10,886	10,358	3,677	22,053	1,767	–	89,543
Provisions for impairment losses	(1,529)	(696)	(1,687)	(2,517)	(4,180)	(658)	(2,563)	(76)	–	(13,906)
Share of profit in associate and jointly controlled entity	–	–	–	–	–	–	–	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
	As at 30 June 2008									
Segment assets	1,329,237	1,127,992	1,213,931	1,052,802	1,024,614	461,290	3,216,624	152,434	(2,525,426)	7,053,498
Interests in associate and jointly controlled entity	–	–	–	–	–	–	–	1,722	–	1,722
	1,329,237	1,127,992	1,213,931	1,052,802	1,024,614	461,290	3,216,624	154,156	(2,525,426)	7,055,220
Unallocated assets										2,486
Total assets										7,057,706
Segment liabilities	1,320,176	1,122,264	1,201,833	1,047,430	1,019,359	459,363	2,805,431	151,873	(2,525,426)	6,602,303
Unallocated liabilities										5
Total liabilities										6,602,308
Off-balance sheet credit commitments	347,780	168,797	244,632	159,059	171,954	70,220	13,942	28,581	–	1,204,965

(Expressed in millions of Renminbi unless otherwise stated)

37 SEGMENT REPORTING (continued)

(b) Geographical segments (continued)

	Six months ended 30 June 2007									
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head office	Overseas	Elimination	Total
External net interest income	15,783	7,208	9,403	8,901	9,816	2,663	34,080	1,359	–	89,213
Internal net interest income/(expenses)	3,340	4,438	4,882	4,232	3,221	2,469	(22,065)	(517)	–	–
Net interest income	19,123	11,646	14,285	13,133	13,037	5,132	12,015	842	–	89,213
Net fee and commission income	2,324	2,171	2,220	2,219	1,986	971	564	205	–	12,660
Net trading gain/(loss)	19	31	82	11	4	18	(38)	120	–	247
Dividend income	1	–	21	17	21	3	10	3	–	76
Net income arising from investment securities	–	–	146	–	–	–	375	28	–	549
Other operating income/(loss)	81	87	102	124	146	33	(3,787)	242	–	(2,972)
Operating income	21,548	13,935	16,856	15,504	15,194	6,157	9,139	1,440	–	99,773
Operating expenses										
– depreciation and amortisation	(733)	(511)	(577)	(692)	(577)	(274)	(479)	(11)	–	(3,854)
– others	(6,562)	(4,743)	(5,353)	(6,028)	(5,699)	(2,524)	(2,038)	(474)	–	(33,421)
	(7,295)	(5,254)	(5,930)	(6,720)	(6,276)	(2,798)	(2,517)	(485)	–	(37,275)
	14,253	8,681	10,926	8,784	8,918	3,359	6,622	955	–	62,498
Provisions for impairment losses	(1,980)	(1,937)	(2,649)	(2,055)	(1,762)	(1,156)	(405)	(25)	–	(11,969)
Share of profit in associate	–	–	–	–	–	–	–	13	–	13
Profit before tax	12,273	6,744	8,277	6,729	7,156	2,203	6,217	943	–	50,542
Capital expenditure	287	154	395	228	316	134	368	81	–	1,963
	As at 31 December 2007									
Segment assets	1,308,774	952,276	1,172,087	968,641	917,902	436,686	3,091,749	102,812	(2,353,884)	6,597,043
Interests in associate	–	–	–	–	–	–	–	1,099	–	1,099
	1,308,774	952,276	1,172,087	968,641	917,902	436,686	3,091,749	103,911	(2,353,884)	6,598,142
Unallocated assets										35
Total assets										6,598,177
Segment liabilities	1,305,366	950,489	1,166,755	968,695	917,340	437,124	2,677,440	105,800	(2,353,884)	6,175,125
Unallocated liabilities										771
Total liabilities										6,175,896
Off-balance sheet credit commitments	268,705	134,329	215,944	130,146	131,331	47,022	14,224	27,858	–	969,559

38 RISK MANAGEMENT

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

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

To identify, evaluate, monitor and manage risk, the Group has designed a comprehensive governance framework, internal control policies and processes, and implements them across the Group subject to the approval of the Risk Management and Internal Control Committee and the President.

(a) Credit risk

Credit risk management

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligations or commitments to the Group. It arises primarily from credit business. In treasury business, credit risk represents the asset value attributable to the Group is reduced for the lowering of ratings for issuers of debt securities.

Credit business

With respect to governance, the Risk Management and Internal Control Committee organises and coordinates the Group's risk management and internal control and guides its members to fulfil their duties. The Risk Management Department, under the supervision of the Risk Management and Internal Control Committee, is responsible for formulating credit risk management policies; the Risk Monitoring Department is responsible for monitoring the implementation of credit risk management policies; the Credit Approval Department is responsible for organising credit approval and customer credit ratings activities. The risk management departments participate in, share and coordinate the work of the Corporate Banking Department, the Institutional Banking Department, the International Business Department, the Housing Finance & Personal Lending Department, the Credit Card Centre, the Special Assets Resolution Department and the Legal and Compliance Department in terms of the application of credit risk management.

In terms of credit risk management of corporate and institutional business, the Group has put in place industry-specific guidelines for credit approval, introduced credit acceptance and exit policies, and further adjusted portfolio structure. Fine-tuned industry-specific credit management, enhanced industry credit limit and economic capital management have also contributed to the improvement of assets quality. The Group's credit risk management covers the key operation phases which include pre-lending evaluations, credit approval and post-lending monitoring. In respect of pre-lending evaluations, the Group assesses customer credit ratings and prepares customer evaluation reports by reference to its internal rating system and performs integrated analyses on potential benefits and risks of loans to form evaluation reports. For credit approval, all credit business is subject to the approval of credit approval officers. For post-lending monitoring, the Group continually monitors granted loans and other credit related businesses, strengthens the risk monitoring on 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 2008, 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.

38 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Credit business (continued)

In terms of its personal credit operations, the Group relies on credit assessment of applicants as the basis for loan approval. In dealing with personal credit, 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 their recommendations to the loan-approval departments for consent. Stressing the post-lending monitoring of personal loans, the Group focuses on borrowers' repayment ability, the status of collateral and any changes to their value. Once a loan becomes overdue, the Group starts the recovery process according to standard personal loan recovery procedures.

To mitigate risks, under appropriate circumstances, the Group requests customers to provide collateral and guarantees. It also sets guidelines for specific types of collateral or their suitability of charging against credit risks, 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.

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 impairment and causes losses. 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

The Group sets credit limits for treasury operations based on the credit risk inherent in the products, counterparties and geographical area. The system closely monitors the credit exposure on a real-time basis, regularly reviews its credit limit policies and updates the credit limits, if required.

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Maximum credit risk exposure

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

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Balances with central banks	**1,054,122**	935,134	**1,053,958**	935,025
Amounts due from banks and non-bank financial institutions	**125,201**	102,393	**119,535**	96,281
Loans and advances to customers	**3,445,965**	3,183,229	**3,406,631**	3,151,289
Non-equity investments	**2,208,027**	2,165,015	**2,201,021**	2,158,400
Amounts due from subsidiaries	**—**	—	**46,845**	31,530
Other financial assets	**83,440**	60,562	**81,947**	59,246
Subtotal	**6,916,755**	6,446,333	**6,909,937**	6,431,771
Credit commitments	**1,204,965**	969,559	**1,194,206**	964,565
Maximum credit risk exposure	**8,121,720**	7,415,892	**8,104,143**	7,396,336

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Distribution of loans and advances to customers in terms of credit quality are as follows:

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Individually assessed and impaired gross amount	**69,002**	77,245	**68,977**	77,204
Allowances for impairment losses	**(42,708)**	(48,215)	**(42,685)**	(48,183)
Subtotal	**26,294**	29,030	**26,292**	29,021
Collectively assessed and impaired gross amount	**9,111**	7,925	**9,109**	7,925
Allowances for impairment losses	**(5,758)**	(4,928)	**(5,756)**	(4,928)
Subtotal	**3,353**	2,997	**3,353**	2,997
Overdue but not impaired (note(i))				
— less than 90 days	**32,115**	20,120	**32,091**	20,049
— 90–180 days	**3,049**	2,864	**3,049**	2,861
— 181–365 days	**—**	—	**—**	—
— over 1 year	**—**	—	**—**	—
Gross amount	**35,164**	22,984	**35,140**	22,910
Allowances for impairment losses (note(ii))	**(1,520)**	(951)	**(1,518)**	(951)
Subtotal	**33,644**	22,033	**33,622**	21,959
Neither overdue nor impaired				
— Unsecured loans	**819,007**	739,644	**809,378**	735,135
— Guaranteed loans	**752,776**	718,338	**752,135**	717,801
— Loans secured by tangible assets other than monetary assets	**1,492,898**	1,389,216	**1,464,422**	1,363,008
— Loans secured by monetary assets	**359,579**	316,805	**358,967**	316,150
Allowances for impairment losses (note(ii))	**(41,586)**	(34,834)	**(41,538)**	(34,782)
Subtotal	**3,382,674**	3,129,169	**3,343,364**	3,097,312
Total	**3,445,965**	3,183,229	**3,406,631**	3,151,289

38 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Notes:

(i) As at 30 June 2008, the gross amount of loans and advances of the Group, which were overdue but not impaired and were subject to individual assessment, were RMB4,827 million (as at 31 December 2007: RMB2,575 million). The covered portion and uncovered portion of these loans and advances were RMB1,931 million and RMB2,896 million respectively (as at 31 December 2007: RMB1,691 million and RMB884 million respectively). The fair value of collaterals held against these loans and advances amounted to RMB4,104 million (as at 31 December 2007: RMB3,403 million).

As at 30 June 2008, the gross amount of loans and advances of the Bank, which were overdue but not impaired and were subject to individual assessment of impairment losses, were RMB4,803 million (as at 31 December 2007: RMB2,506 million). The covered portion and uncovered portion of these loans and advances were RMB1,909 million and RMB2,894 million respectively (as at 31 December 2007: RMB1,627 million and RMB879 million respectively). The fair value of collaterals held against these loans and advances amounted to RMB4,082 million (as at 31 December 2007: RMB3,314 million).

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

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

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Loans and advances to customers analysed by economic sector concentrations

Group

	As at 30 June 2008			As at 31 December 2007		
	Gross loan balance	**%**	**Balance secured by collaterals**	Gross loan balance	%	Balance secured by collaterals
Operations in Mainland China						
Corporate loans and advances						
— manufacturing	**634,805**	**18.60**	**250,044**	592,502	18.68	232,985
— production and supply of electric power, gas and water	**408,726**	**11.98**	**107,423**	377,285	11.90	89,264
— transportation, storage and postal services	**399,572**	**11.71**	**191,668**	370,732	11.69	179,538
— real estate	**333,177**	**9.76**	**277,676**	317,780	10.02	263,802
— water, environment and public utility management	**125,993**	**3.69**	**63,510**	106,693	3.36	48,991
— leasing and commercial services	**114,665**	**3.36**	**45,644**	92,968	2.93	35,327
— construction	**109,920**	**3.22**	**38,049**	101,467	3.20	35,026
— wholesale and retail trade	**96,244**	**2.82**	**52,350**	89,289	2.82	47,415
— education	**79,580**	**2.33**	**25,715**	78,153	2.46	23,670
— mining	**78,146**	**2.29**	**13,717**	69,666	2.20	12,453
— telecommunications, computer services and software	**29,474**	**0.86**	**4,662**	35,846	1.13	3,564
— others	**112,403**	**3.30**	**61,784**	112,376	3.55	59,277
Total corporate loans and advances	**2,522,705**	**73.92**	**1,132,242**	2,344,757	73.94	1,031,312
Personal loans and advances	**772,613**	**22.64**	**733,629**	723,805	22.82	686,672
Discounted bills	**117,225**	**3.44**	**846**	102,826	3.24	1,467
Total loans and advances to customers in Mainland China	**3,412,543**	**100.00**	**1,866,717**	3,171,388	100.00	1,719,451

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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

Group *(continued)*

	As at 30 June 2008			As at 31 December 2007		
	Gross loan balance	%	Balance secured by collaterals	Gross loan balance	%	Balance secured by collaterals
Overseas operations						
Corporate loans and advances						
— transportation, storage and postal services	24,538	19.63	11,789	19,393	19.25	8,326
— manufacturing	21,776	17.42	5,789	16,722	16.59	4,645
— wholesale and retail trade	14,538	11.63	7,532	5,841	5.80	4,338
— real estate	14,183	11.35	8,739	18,530	18.39	13,524
— production and supply of electric power, gas and water	6,172	4.94	2,556	7,089	7.03	4,832
— telecommunications, computer services and software	4,925	3.94	857	4,155	4.12	512
— leasing and commercial services	1,765	1.41	1,501	3,563	3.54	2,510
— others	13,355	10.68	6,598	9,289	9.22	5,046
Total corporate loans and advances	101,252	81.00	45,361	84,582	83.94	43,733
Personal loans and advances	23,606	18.89	23,192	15,783	15.66	15,366
Discounted bills	136	0.11	—	404	0.40	21
Total loans and advances to customers overseas	124,994	100.00	68,553	100,769	100.00	59,120
Total gross loans and advances to customers	3,537,537		1,935,270	3,272,157		1,778,571

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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

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

Group

	As at 30 June 2008				
	Gross impaired loans	**Individually assessed impairment allowances**	**Collectively assessed impairment allowances**	**Impairment losses charged to income statement during the period**	**Impaired loans written off during the period**
Manufacturing	**20,471**	**(14,232)**	**(8,111)**	**1,194**	**703**
Transportation, storage and postal services	**6,207**	**(3,192)**	**(5,251)**	**1,386**	**17**
Production and supply of electric power, gas and water	**6,857**	**(3,590)**	**(6,344)**	**2,434**	**18**

	As at 31 December 2007				
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Impairment losses charged to income statement during the year	Impaired loans written off during the year
Manufacturing	25,016	(17,436)	(7,215)	5,281	3,004
Real estate	15,381	(8,941)	(3,693)	2,992	1,192
Transportation, storage and postal services	5,978	(3,467)	(4,333)	2,523	24
Production and supply of electric power, gas and water	5,957	(3,095)	(4,685)	2,741	23

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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

Bank

	As at 30 June 2008			As at 31 December 2007		
	Gross loan balance	**%**	**Balance secured by collaterals**	Gross loan balance	%	Balance secured by collaterals
Operations in Mainland China						
Corporate loans and advances						
— manufacturing	**634,401**	**18.60**	**250,044**	592,502	18.68	232,985
— production and supply of electric power, gas and water	**407,991**	**11.96**	**107,423**	377,285	11.90	89,264
— transportation, storage and postal services	**399,572**	**11.71**	**191,668**	370,732	11.69	179,538
— real estate	**333,177**	**9.77**	**277,676**	317,780	10.02	263,802
— water, environment and public utility management	**125,993**	**3.69**	**63,510**	106,693	3.36	48,991
— leasing and commercial services	**114,665**	**3.36**	**45,644**	92,968	2.93	35,327
— construction	**109,920**	**3.22**	**38,049**	101,467	3.20	35,026
— wholesale and retail trade	**96,244**	**2.82**	**52,350**	89,289	2.82	47,415
— education	**79,580**	**2.33**	**25,715**	78,153	2.46	23,670
— mining	**78,146**	**2.29**	**13,717**	69,666	2.20	12,453
— telecommunications, computer services and software	**29,474**	**0.86**	**4,662**	35,846	1.13	3,564
— others	**112,403**	**3.30**	**61,784**	112,376	3.55	59,277
Total corporate loans and advances	**2,521,566**	**73.91**	**1,132,242**	2,344,757	73.94	1,031,312
Personal loans and advances	**772,516**	**22.65**	**733,629**	723,746	22.82	686,623
Discounted bills	**117,225**	**3.44**	**846**	102,826	3.24	1,467
Total loans and advances to customers in Mainland China	**3,411,307**	**100.00**	**1,866,717**	3,171,329	100.00	1,719,402

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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

Bank *(continued)*

	As at 30 June 2008			As at 31 December 2007		
	Gross loan balance	**%**	**Balance secured by collaterals**	**Gross loan balance**	**%**	**Balance secured by collaterals**
Overseas operations						
Corporate loans and advances						
— transportation, storage and postal services	**23,488**	**27.05**	**11,720**	19,223	27.94	8,269
— manufacturing	**18,248**	**21.02**	**5,285**	14,170	20.59	4,078
— real estate	**12,552**	**14.46**	**7,511**	10,958	15.93	6,514
— wholesale and retail trade	**11,245**	**12.95**	**6,475**	4,920	7.15	3,623
— production and supply of electric power, gas and water	**5,883**	**6.78**	**2,556**	7,002	10.18	4,832
— telecommunications, computer services and software	**4,865**	**5.60**	**847**	4,063	5.91	466
— leasing and commercial services	**1,765**	**2.03**	**1,501**	2,751	4.00	2,510
— others	**8,619**	**9.93**	**3,525**	5,613	8.15	1,881
Total corporate loans and advances	**86,665**	**99.82**	**39,420**	68,700	99.85	32,173
Personal loans and advances	**20**	**0.02**	**19**	24	0.03	24
Discounted bills	**136**	**0.16**	**—**	80	0.12	—
Total loans and advances to customers overseas	**86,821**	**100.00**	**39,439**	68,804	100.00	32,197
Total gross loans and advances to customers	**3,498,128**		**1,906,156**	3,240,133		1,751,599

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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

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

Bank

	As at 30 June 2008				
	Gross impaired loans	**Individually assessed impairment allowances**	**Collectively assessed impairment allowances**	**Impairment losses charged to income statement during the period**	**Impaired loans written off during the period**
Manufacturing	**20,451**	**(14,213)**	**(8,106)**	**1,198**	**702**
Transportation, storage and postal services	**6,207**	**(3,192)**	**(5,247)**	**1,386**	**17**
Production and supply of electric power, gas and water	**6,857**	**(3,590)**	**(6,344)**	**2,434**	**18**

	As at 31 December 2007				
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Impairment losses charged to income statement during the year	Impaired loans written off during the year
Manufacturing	24,991	(17,411)	(7,207)	5,283	3,004
Real estate	15,372	(8,937)	(3,670)	3,006	1,192
Transportation, storage and postal services	5,978	(3,467)	(4,332)	2,523	23
Production and supply of electric power, gas and water	5,957	(3,095)	(4,685)	2,741	23

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Loans and advances to customers analysed by geographical sector concentrations

Group

	As at 30 June 2008			As at 31 December 2007		
	Gross loan balance	**%**	**Balance secured by collaterals**	Gross loan balance	%	Balance secured by collaterals
Yangtze River Delta	**878,081**	**24.82**	**519,225**	816,085	24.95	473,215
Bohai Rim	**638,658**	**18.05**	**289,033**	602,943	18.43	269,153
Western	**582,522**	**16.47**	**335,859**	530,805	16.22	307,825
Central	**561,755**	**15.88**	**297,823**	519,388	15.87	274,282
Pearl River Delta	**510,245**	**14.42**	**321,193**	473,478	14.47	296,142
Northeastern	**212,324**	**6.00**	**103,033**	199,106	6.08	97,964
Head office	**28,958**	**0.82**	**551**	29,583	0.90	870
Overseas	**124,994**	**3.54**	**68,553**	100,769	3.08	59,120
Gross loans and advances to customers	**3,537,537**	**100.00**	**1,935,270**	3,272,157	100.00	1,778,571

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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:

	As at 30 June 2008		
	Gross impaired loans	**Individually assessed impairment allowances**	**Collectively assessed impairment allowances**
Bohai Rim	**18,091**	**(10,474)**	**(9,156)**
Central	**13,778**	**(7,400)**	**(7,797)**
Western	**17,245**	**(9,338)**	**(9,844)**
Pearl River Delta	**9,115**	**(5,418)**	**(6,802)**
Yangtze River Delta	**9,835**	**(4,382)**	**(11,016)**

	As at 31 December 2007		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Bohai Rim	21,844	(13,692)	(8,138)
Central	14,637	(7,495)	(6,583)
Western	13,903	(8,774)	(6,820)
Pearl River Delta	11,977	(7,498)	(5,703)
Yangtze River Delta	11,835	(5,267)	(9,663)

The definitions of geographical segments are set out in Note 37(b).

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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

Bank

	As at 30 June 2008			As at 31 December 2007		
	Gross loan balance	%	Balance secured by collaterals	Gross loan balance	%	Balance secured by collaterals
Yangtze River Delta	878,081	25.10	519,225	816,085	25.20	473,215
Bohai Rim	637,422	18.22	289,033	602,884	18.61	269,104
Western	582,522	16.65	335,859	530,805	16.38	307,825
Central	561,755	16.06	297,823	519,388	16.03	274,282
Pearl River Delta	510,245	14.59	321,193	473,478	14.61	296,142
Northeastern	212,324	6.07	103,033	199,106	6.14	97,964
Head office	28,958	0.83	551	29,583	0.91	870
Overseas	86,821	2.48	39,439	68,804	2.12	32,197
Gross loans and advances to customers	3,498,128	100.00	1,906,156	3,240,133	100.00	1,751,599

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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

Bank *(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:

	As at 30 June 2008		
	Gross impaired loans	**Individually assessed impairment allowances**	**Collectively assessed impairment allowances**
Bohai Rim	**18,091**	**(10,474)**	**(9,155)**
Central	**13,778**	**(7,400)**	**(7,797)**
Western	**17,245**	**(9,338)**	**(9,844)**
Pearl River Delta	**9,115**	**(5,418)**	**(6,802)**
Yangtze River Delta	**9,835**	**(4,382)**	**(11,016)**

	As at 31 December 2007		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Bohai Rim	21,844	(13,692)	(8,137)
Central	14,637	(7,495)	(6,583)
Western	13,903	(8,774)	(6,820)
Pearl River Delta	11,977	(7,498)	(5,703)
Yangtze River Delta	11,835	(5,267)	(9,663)

The definitions of geographical segments are set out in Note 37(b).

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Loans and advances to customers analysed by types of collateral

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Unsecured loans	**823,716**	744,682	**814,062**	740,168
Guaranteed loans	**778,551**	748,904	**777,910**	748,366
Secured loans by tangible assets other than monetary assets	**1,564,568**	1,453,056	**1,536,066**	1,426,739
Secured loans by monetary assets	**370,702**	325,515	**370,090**	324,860
Gross loans and advances to customers	**3,537,537**	3,272,157	**3,498,128**	3,240,133

Rescheduled loans and advances to customers

Group

	As at 30 June 2008		As at 31 December 2007	
		% of gross loans and advances		% of gross loans and advances
Rescheduled loans and advances to customers	**3,495**	**0.10%**	3,648	0.11%
Less:				
— Overdue rescheduled loans and advances for more than 90 days	**(2,274)**	**(0.06%)**	(2,471)	(0.08%)
Overdue rescheduled loans and advances for not more than 90 days	**1,221**	**0.04%**	1,177	0.03%

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Bank

	As at 30 June 2008		As at 31 December 2007	
		% of gross loans and advances		% of gross loans and advances
Rescheduled loans and advances to customers	**3,472**	**0.10%**	3,622	0.11%
Less:				
— Overdue rescheduled loans and advances for more than 90 days	**(2,253)**	**(0.06%)**	(2,469)	(0.08%)
Overdue rescheduled loans and advances for not more than 90 days	**1,219**	**0.04%**	1,153	0.03%

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

	Amounts due from banks and non-bank financial institutions			
	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Individually assessed and impaired gross amount	**543**	663	**543**	663
Allowances for impairment	**(417)**	(539)	**(417)**	(539)
Subtotal	**126**	124	**126**	124
Neither overdue nor impaired				
— grade A to AAA	**109,428**	76,470	**103,806**	70,702
— grade B to BBB	**3,576**	7,340	**3,576**	7,339
— unrated	**12,071**	18,459	**12,027**	18,116
Subtotal	**125,075**	102,269	**119,409**	96,157
Total	**125,201**	102,393	**119,535**	96,281

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

The Group adopts a credit rating approach to manage the risk of debt securities portfolio held by the 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 analysed by the rating agency designations at the balance sheet date are as follows:

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Individually assessed and impaired gross amount	**9,655**	9,556	**9,655**	9,556
Allowances for impairment	**(5,272)**	(5,332)	**(5,272)**	(5,332)
Subtotal	**4,383**	4,224	**4,383**	4,224
Neither overdue nor impaired				
Bloomberg Composite				
— AAA	**88,424**	149,251	**88,424**	149,251
— AA- to AA+	**32,064**	53,025	**32,064**	53,025
— A- to A+	**31,565**	35,298	**31,565**	35,298
— lower than A-	**3,238**	4,038	**3,238**	4,038
Subtotal	**155,291**	241,612	**155,291**	241,612
Other agency ratings				
— AAA	**294,300**	291,007	**294,300**	291,007
— AA- to AA+	**4,691**	3,120	**4,691**	3,120
— A- to A+ (note)	**1,716,064**	1,590,683	**1,715,666**	1,590,683
— lower than A-	**166**	982	**166**	982
Subtotal	**2,015,221**	1,885,792	**2,014,823**	1,885,792
Subtotal of debt securities held by operations in Mainland China	**2,174,895**	2,131,628	**2,174,497**	2,131,628
Debt securities held by overseas operations	**33,132**	33,387	**26,524**	26,772
Total	**2,208,027**	2,165,015	**2,201,021**	2,158,400

Note: This includes debt securities issued by the PRC government, PBC and PRC policy banks amounted to RMB1,702,002 million (as at 31 December 2007: RMB1,562,754 million).

38 RISK MANAGEMENT (continued)

(b) Market risk

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

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

The Group's foreign exchange exposure mainly comprises exposures from foreign currency portfolios within treasury proprietary investments, and currency exposures from its overseas businesses.

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

The Risk Management Department is responsible for formulating a standardised market risk management policies and rules. The Asset and Liability Management Department (the "ALM") is responsible for managing the size and structure of the balance sheet in response to structural 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 implements market risk management policies and rules. The Risk Monitoring Department is responsible for supervising the implementation of market risk management policies and rules of the Bank. The Audit Department assesses whether market risk management is adequate and effective.

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.

VaR analysis

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market rates, foreign exchange rates and prices over a specified time horizon and at a given level of confidence. The Financial Market 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 Financial Market Department calculates VaR on a daily basis for foreign currency portfolio and at least on a weekly basis for RMB portfolio. VaR is calculated at a confidence level of 99% and with a holding period of one day.

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(b) Market risk (continued)

VaR analysis (continued)

A summary of the VaR of the Bank's trading portfolio and available-for-sale debt securities as at 30 June 2008 and 30 June 2007 and during the respective period/year is as follows:

	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**

	Six months ended 30 June 2007			
	As at 30 June	Average	Maximum	Minimum
RMB trading portfolio				
Interest rate risk	2	3	4	2
RMB available-for-sale debt securities				
Interest rate risk	218	178	218	93
Foreign currency trading portfolio				
Interest rate risk	34	57	96	34
Foreign currency risk	12	7	4	12
Diversification	(15)	(8)	(3)	(15)
	31	56	97	31
Foreign currency available-for-sale debt securities				
Interest rate risk	666	473	666	381

38 RISK MANAGEMENT (continued)

(b) Market risk (continued)

VaR analysis (continued)

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.

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 of which being constant, would increase or decrease planned net interest income for the next twelve months from the reporting date by RMB28,873 million (as at 31 December 2007: RMB23,341 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 RMB4,890 million (as at 31 December 2007: RMB7,207 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, this effect has not taken into account the possible risk management measures that can be undertaken by the Financial Market Department or related business departments to mitigate interest rate risk. In practice, the Financial Market Department strives to reduce loss arising from interest rate risk while increasing its net income. These estimated figures have also assumed that the interest rates on various maturities will move within similar ranges, and therefore do not reflect any 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.

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(b) Market risk (continued)

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 sensitive repricing gaps, and their impact on the Group's net interest income and economic value under different interest rates scenarios. The primary objective of such interest rate risk management is to reduce potential adverse effects on net interest income and economic value due to interest rate movements.

The following tables indicate the effective interest rates for the six months ended 30 June 2008 and the year ended 31 December 2007, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities at the balance sheet date.

Group

	As at 30 June 2008						
	Effective interest rate (note(i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and balances with central banks	1.87%	1,083,136	29,014	1,054,122	–	–	–
Amounts due from banks and non-bank financial institutions	3.70%	125,201	–	95,249	29,951	–	1
Loans and advances to customers (note(ii))	7.07%	3,445,965	–	983,086	2,398,078	27,706	37,095
Investments	3.60%	2,232,750	24,723	286,874	583,169	995,157	342,827
Others	–	170,654	170,654	–	–	–	–
Total assets	5.10%	7,057,706	224,391	2,419,331	3,011,198	1,022,863	379,923
Liabilities							
Amounts due to central banks	4.79%	1,362	–	1,362	–	–	–
Amounts due to banks and non-bank financial institutions	1.71%	601,073	–	596,870	4,114	89	–
Trading liabilities	3.78%	7,519	–	2,287	4,448	471	313
Deposits from customers	1.94%	5,781,573	31,491	4,143,367	1,325,205	270,632	10,878
Certificates of deposit issued	3.49%	11,456	–	8,436	1,960	1,060	–
Others	–	159,392	159,392	–	–	–	–
Subordinated bonds issued	5.03%	39,933	–	9,921	30,012	–	–
Total liabilities	1.94%	6,602,308	190,883	4,762,243	1,365,739	272,252	11,191
Asset-liability gap	3.16%	455,398	33,508	(2,342,912)	1,645,459	750,611	368,732

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Interest rate repricing gap analysis (continued)

***Group** (continued)*

	As at 31 December 2007						
	Effective interest rate (note(i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and balances with central banks	1.78%	967,374	32,240	935,134	–	–	–
Amounts due from banks and non-bank financial institutions	3.57%	102,393	–	88,663	13,545	182	3
Loans and advances to customers (note(ii))	6.31%	3,183,229	–	1,420,365	1,697,293	30,795	34,776
Investments	3.29%	2,201,810	36,795	331,537	513,923	916,255	403,300
Others	–	143,371	143,371	–	–	–	–
Total assets	4.70%	6,598,177	212,406	2,775,699	2,224,761	947,232	438,079
Liabilities							
Amounts due to central banks	6.10%	50,973	–	50,973	–	–	–
Amounts due to banks and non-bank financial institutions	1.82%	606,061	–	601,443	4,588	30	–
Trading liabilities	5.91%	10,809	–	3,730	5,950	1,129	–
Deposits from customers	1.56%	5,329,507	38,056	3,959,568	1,067,501	256,311	8,071
Certificates of deposit issued	4.81%	9,284	–	6,659	1,363	1,262	–
Others	–	129,334	129,334	–	–	–	–
Subordinated bonds issued	4.86%	39,928	–	–	9,920	30,008	–
Total liabilities	1.63%	6,175,896	167,390	4,622,373	1,089,322	288,740	8,071
Asset-liability gap	3.07%	422,281	45,016	(1,846,674)	1,135,439	658,492	430,008

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 above “less than three months” category includes overdue amounts (net of allowances for impairment losses) of RMB51,846 million as at 30 June 2008 (as at 31 December 2007: RMB42,480 million).

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Interest rate repricing gap analysis (continued)

Bank

	As at 30 June 2008						
	Effective interest rate (note(i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and balances with central banks	1.87%	1,082,864	28,906	1,053,958	–	–	–
Amounts due from banks and non-bank financial institutions	3.70%	119,535	–	91,844	27,690	–	1
Loans and advances to customers (note(ii))	7.10%	3,406,631	–	945,754	2,396,432	27,449	36,996
Investments	3.60%	2,222,379	21,358	282,935	582,735	992,654	342,697
Interests in subsidiaries	2.66%	51,038	16,488	30,762	3,788	–	–
Others	–	165,799	165,799	–	–	–	–
Total assets	5.11%	7,048,246	232,551	2,405,253	3,010,645	1,020,103	379,694
Liabilities							
Amounts due to central banks	4.79%	1,362	–	1,362	–	–	–
Amounts due to banks and non-bank financial institutions	1.65%	598,942	–	595,346	3,507	89	–
Amounts due to subsidiaries	3.03%	32,815	2,454	29,190	1,171	–	–
Trading liabilities	3.78%	7,519	–	2,287	4,448	471	313
Deposits from customers	1.94%	5,748,974	31,425	4,111,765	1,325,205	270,632	9,947
Certificates of deposit issued	3.46%	8,861	–	5,841	1,960	1,060	–
Others	–	157,583	157,583	–	–	–	–
Subordinated bonds issued	5.03%	39,933	–	9,921	30,012	–	–
Total liabilities	1.93%	6,595,989	191,462	4,755,712	1,366,303	272,252	10,260
Asset-liability gap	3.18%	452,257	41,089	(2,350,459)	1,644,342	747,851	369,434

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Interest rate repricing gap analysis (continued)

***Bank** (continued)*

	As at 31 December 2007						
	Effective interest rate (note(i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and balances with central banks	1.78%	967,106	32,081	935,025	–	–	–
Amounts due from banks and non-bank financial institutions	3.57%	96,281	–	82,552	13,544	182	3
Loans and advances to customers (note(ii))	6.32%	3,151,289	–	1,389,534	1,696,715	30,427	34,613
Investments	3.29%	2,192,585	34,185	327,476	511,946	915,859	403,119
Interests in subsidiaries	4.99%	35,536	16,721	14,330	4,017	468	–
Others	–	139,042	139,042	–	–	–	–
Total assets	4.69%	6,581,839	222,029	2,748,917	2,226,222	946,936	437,735
Liabilities							
Amounts due to central banks	6.10%	50,973	–	50,973	–	–	–
Amounts due to banks and non-bank financial institutions	1.83%	605,076	–	600,458	4,588	30	–
Amounts due to subsidiaries	4.96%	23,083	555	18,250	4,095	183	–
Trading liabilities	5.91%	10,809	–	3,730	5,950	1,129	–
Deposits from customers	1.55%	5,296,988	36,923	3,929,948	1,066,505	255,925	7,687
Certificates of deposit issued	4.91%	8,347	–	6,003	1,082	1,262	–
Others	–	127,118	127,118	–	–	–	–
Subordinated bonds issued	4.86%	39,928	–	–	9,920	30,008	–
Total liabilities	1.62%	6,162,322	164,596	4,609,362	1,092,140	288,537	7,687
Asset-liability gap	3.07%	419,517	57,433	(1,860,445)	1,134,082	658,399	430,048

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 above "less than three months" category includes overdue amounts (net of allowances for impairment losses) of RMB51,817 million as at 30 June 2008 (as at 31 December 2007: RMB42,411 million).

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Foreign exchange risk concentration analysis

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

The Group also uses derivatives (principally currency interest swaps and interest rate swaps) in the management of its own asset and liability portfolios and structural positions (Note 38(d)), and 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.

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

Group

	As at 30 June 2008			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Assets				
Cash and balances with central banks	1,075,651	5,516	1,969	1,083,136
Amounts due from banks and non-bank financial institutions	93,565	25,024	6,612	125,201
Loans and advances to customers	3,228,785	136,749	80,431	3,445,965
Investments	2,037,174	173,195	22,381	2,232,750
Others	157,965	6,294	6,395	170,654
Total assets	6,593,140	346,778	117,788	7,057,706
Liabilities				
Amounts due to central banks	6	—	1,356	1,362
Amounts due to banks and non-bank financial institutions	524,127	58,309	18,637	601,073
Trading liabilities	2,998	2,781	1,740	7,519
Deposits from customers	5,613,430	93,227	74,916	5,781,573
Certificates of deposit issued	10	2,998	8,448	11,456
Others	153,627	2,606	3,159	159,392
Subordinated bonds issued	39,933	—	—	39,933
Total liabilities	6,334,131	159,921	108,256	6,602,308
Net position	259,009	186,857	9,532	455,398
Net notional amount of derivatives	173,415	(162,863)	3,041	13,593

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Foreign exchange risk concentration analysis (continued)

***Group** (continued)*

	As at 31 December 2007			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Assets				
Cash and balances with central banks	958,896	5,842	2,636	967,374
Amounts due from banks and non-bank financial institutions	40,076	53,588	8,729	102,393
Loans and advances to customers	2,986,566	121,700	74,963	3,183,229
Investments	1,921,778	256,566	23,466	2,201,810
Others	123,499	9,790	10,082	143,371
Total assets	6,030,815	447,486	119,876	6,598,177
Liabilities				
Amounts due to central banks	50,006	—	967	50,973
Amounts due to banks and non-bank financial institutions	537,781	56,438	11,842	606,061
Trading liabilities	2,918	6,969	922	10,809
Deposits from customers	5,155,321	92,410	81,776	5,329,507
Certificates of deposit issued	10	1,680	7,594	9,284
Others	120,707	3,443	5,184	129,334
Subordinated bonds issued	39,928	—	—	39,928
Total liabilities	5,906,671	160,940	108,285	6,175,896
Net position	124,144	286,546	11,591	422,281
Net notional amount of derivatives	249,734	(247,282)	7,071	9,523

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Foreign exchange risk concentration analysis (continued)

Bank

	As at 30 June 2008			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Assets				
Cash and balances with central banks	1,075,488	5,516	1,860	1,082,864
Amounts due from banks and non-bank financial institutions	90,126	22,994	6,415	119,535
Loans and advances to customers	3,227,550	131,398	47,683	3,406,631
Investments	2,035,520	167,160	19,699	2,222,379
Interests in subsidiaries	16,105	29,432	5,501	51,038
Others	157,926	6,221	1,652	165,799
Total assets	6,602,715	362,721	82,810	7,048,246
Liabilities				
Amounts due to central banks	6	—	1,356	1,362
Amounts due to banks and non-bank financial institutions	524,127	57,794	17,021	598,942
Amounts due to subsidiaries	3,843	26,073	2,899	32,815
Trading liabilities	2,998	2,781	1,740	7,519
Deposits from customers	5,612,144	86,376	50,454	5,748,974
Certificates of deposit issued	10	2,516	6,335	8,861
Others	153,452	2,428	1,703	157,583
Subordinated bonds issued	39,933	—	—	39,933
Total liabilities	6,336,513	177,968	81,508	6,595,989
Net position	266,202	184,753	1,302	452,257
Net notional amount of derivatives	173,408	(160,173)	(313)	12,922

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Foreign exchange risk concentration analysis (continued)

***Bank** (continued)*

	As at 31 December 2007			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Assets				
Cash and balances with central banks	958,738	5,836	2,532	967,106
Amounts due from banks and non-bank financial institutions	39,923	47,915	8,443	96,281
Loans and advances to customers	2,986,508	119,782	44,999	3,151,289
Investments	1,919,973	251,537	21,075	2,192,585
Interests in subsidiaries	3,631	28,421	3,484	35,536
Others	123,254	9,629	6,159	139,042
Total assets	6,032,027	463,120	86,692	6,581,839
Liabilities				
Amounts due to central banks	50,006	—	967	50,973
Amounts due to banks and non-bank financial institutions	537,781	56,394	10,901	605,076
Amounts due to subsidiaries	5,022	16,686	1,375	23,083
Trading liabilities	2,918	6,969	922	10,809
Deposits from customers	5,154,368	83,833	58,787	5,296,988
Certificates of deposit issued	10	1,680	6,657	8,347
Others	119,928	3,258	3,932	127,118
Subordinated bonds issued	39,928	—	—	39,928
Total liabilities	5,909,961	168,820	83,541	6,162,322
Net position	122,066	294,300	3,151	419,517
Net notional amount of derivatives	249,731	(244,455)	4,247	9,523

38 RISK MANAGEMENT (continued)

(c) Liquidity risk

Liquidity risk is the risk that no sufficient 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 stabilizing the source of funds, and reserving an appropriate proportion of highly credit-rated and liquid asset portfolio; and

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

A substantial portion of the Group's assets are funded by customer deposits. These customer deposits, which have been growing in recent years, are widely diversified in types and maturities and represent a stable source of funds.

The Group principally uses liquidity analysis and gap analysis to measure the liquidity risk. Gap analysis is 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)

38 RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

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

	As at 30 June 2008							
	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	Indefinite (note(i))	Total
Assets								
Cash and balances with central banks	113,825	–	5,000	–	–	–	964,311	1,083,136
Amounts due from banks and non-bank financial institutions	20,641	40,582	33,888	29,951	–	1	138	125,201
Loans and advances to customers	34,967	125,252	287,171	979,710	1,023,383	957,842	37,640	3,445,965
Investments (note(ii))	–	22,630	130,524	431,767	1,169,983	435,366	42,480	2,232,750
Others	50,466	4,367	15,650	13,600	5,127	7,389	74,055	170,654
Total assets	219,899	192,831	472,233	1,455,028	2,198,493	1,400,598	1,118,624	7,057,706
Liabilities								
Amounts due to central banks	6	–	1,356	–	–	–	–	1,362
Amounts due to banks and non-bank financial institutions	463,635	113,799	19,436	4,114	89	–	–	601,073
Trading liabilities	–	511	1,776	4,448	471	313	–	7,519
Deposits from customers	3,414,007	236,899	515,174	1,331,914	275,912	7,667	–	5,781,573
Certificates of deposit issued	–	1,569	917	4,282	4,688	–	–	11,456
Others	93,195	17,541	7,188	26,562	7,012	7,889	5	159,392
Subordinated bonds issued	–	–	–	–	–	39,933	–	39,933
Total liabilities	3,970,843	370,319	545,847	1,371,320	288,172	55,802	5	6,602,308
(Short)/long position	(3,750,944)	(177,488)	(73,614)	83,708	1,910,321	1,344,796	1,118,619	455,398
Notional amount of derivatives	–	149,497	126,682	358,659	154,953	69,208	–	858,999

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

Group (continued)

	As at 31 December 2007							
	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	Indefinite (note(i))	Total
Assets								
Cash and balances with central banks	107,178	109,320	14,330	–	–	–	736,546	967,374
Amounts due from banks and non-bank financial institutions	17,255	55,839	15,457	13,548	137	3	154	102,393
Loans and advances to customers	27,271	122,830	250,102	924,681	941,207	880,105	37,033	3,183,229
Investments (note(ii))	–	114,462	133,683	341,943	1,071,124	489,263	51,335	2,201,810
Others	30,978	2,926	11,263	11,427	2,673	1,497	82,607	143,371
Total assets	182,682	405,377	424,835	1,291,599	2,015,141	1,370,868	907,675	6,598,177
Liabilities								
Amounts due to central banks	6	50,000	967	–	–	–	–	50,973
Amounts due to banks and non-bank financial institutions	510,163	80,154	11,126	4,587	31	–	–	606,061
Trading liabilities	–	3,383	347	5,950	1,129	–	–	10,809
Deposits from customers	3,354,269	206,589	436,449	1,063,397	260,626	8,177	–	5,329,507
Certificates of deposit issued	–	245	1,078	3,563	4,398	–	–	9,284
Others	83,694	3,902	6,686	12,748	13,794	7,739	771	129,334
Subordinated bonds issued	–	–	–	–	–	39,928	–	39,928
Total liabilities	3,948,132	344,273	456,653	1,090,245	279,978	55,844	771	6,175,896
(Short)/long position	(3,765,450)	61,104	(31,818)	201,354	1,735,163	1,315,024	906,904	422,281
Notional amount of derivatives	–	82,677	86,080	395,935	98,164	42,524	–	705,380

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

Bank

	As at 30 June 2008							
	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	Indefinite (note(i))	Total
Assets								
Cash and balances with central banks	113,716	–	5,000	–	–	–	964,148	1,082,864
Amounts due from banks and non-bank financial institutions	18,937	38,357	32,151	29,951	–	1	138	119,535
Loans and advances to customers	34,026	122,794	281,855	976,870	1,013,079	940,372	37,635	3,406,631
Investments (note(ii))	–	21,929	127,367	431,321	1,167,446	435,204	39,112	2,222,379
Interests in subsidiaries	917	10,594	20,320	2,778	–	–	16,429	51,038
Others	50,400	3,746	15,433	13,566	5,115	7,368	70,171	165,799
Total assets	217,996	197,420	482,126	1,454,486	2,185,640	1,382,945	1,127,633	7,048,246
Liabilities								
Amounts due to central banks	6	–	1,356	–	–	–	–	1,362
Amounts due to banks and non-bank financial institutions	463,522	112,601	18,951	3,779	89	–	–	598,942
Amounts due to subsidiaries	734	11,117	19,040	1,924	–	–	–	32,815
Trading liabilities	–	511	1,776	4,448	471	313	–	7,519
Deposits from customers	3,404,249	225,259	506,895	1,329,925	275,912	6,734	–	5,748,974
Certificates of deposit issued	–	1,569	429	2,263	4,600	–	–	8,861
Others	92,225	16,926	7,053	26,529	6,964	7,886	–	157,583
Subordinated bonds issued	–	–	–	–	–	39,933	–	39,933
Total liabilities	3,960,736	367,983	555,500	1,368,868	288,036	54,866	–	6,595,989
(Short)/long position	(3,742,740)	(170,563)	(73,374)	85,618	1,897,604	1,328,079	1,127,633	452,257
Notional amount of derivatives	–	125,165	123,263	357,303	153,831	68,940	–	828,502

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

Bank (continued)

	As at 31 December 2007							
	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	Indefinite (note(i))	Total
Assets								
Cash and balances with central banks	107,019	109,320	14,330	–	–	–	736,437	967,106
Amounts due from banks and non-bank financial institutions	16,946	50,511	14,985	13,545	137	3	154	96,281
Loans and advances to customers	26,107	121,555	248,325	920,853	931,964	865,500	36,985	3,151,289
Investments (note(ii))	–	112,176	132,599	341,347	1,068,654	489,083	48,726	2,192,585
Interests in subsidiaries	887	843	12,726	4,025	468	–	16,587	35,536
Others	30,703	2,357	11,015	11,383	2,503	1,488	79,593	139,042
Total assets	181,662	396,762	433,980	1,291,153	2,003,726	1,356,074	918,482	6,581,839
Liabilities								
Amounts due to central banks	6	50,000	967	–	–	–	–	50,973
Amounts due to banks and non-bank financial institutions	510,034	79,914	10,510	4,587	31	–	–	605,076
Amounts due to subsidiaries	5,667	1,192	11,938	4,103	183	–	–	23,083
Trading liabilities	–	3,383	347	5,950	1,129	–	–	10,809
Deposits from customers	3,346,987	188,580	431,026	1,062,369	260,234	7,792	–	5,296,988
Certificates of deposit issued	–	244	1,078	2,627	4,398	–	–	8,347
Others	83,531	2,803	6,031	12,624	13,790	7,737	602	127,118
Subordinated bonds issued	–	–	–	–	–	39,928	–	39,928
Total liabilities	3,946,225	326,116	461,897	1,092,260	279,765	55,457	602	6,162,322
(Short)/long position	(3,764,563)	70,646	(27,917)	198,893	1,723,961	1,300,617	917,880	419,517
Notional amount of derivatives	–	77,780	76,287	394,752	98,003	42,392	–	689,214

Notes:

(i) For cash and balances with central banks, the indefinite period amount represents statutory deposit reserves and fiscal balances maintained with the PBC. For amounts due from banks and non-bank financial institutions, loans and advances to customers, receivables and debt securities within investments, they represent the balances being impaired or overdue for more than one month. Equity investments are also reported under indefinite period.

(ii) Of the amounts in investments, RMB547,430 million (as at 31 December 2007: RMB459,439 million) and RMB537,457 million (as at 31 December 2007: RMB450,824 million) are trading investments and available-for-sale investments of the Group and the Bank respectively, the remaining term to maturity of which does not represent the intended holding period by the Group and the Bank.

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cashflow of non-derivatives financial liabilities and off-balance sheet credit 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

	As at 30 June 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
Amounts due to central banks	1,362	1,378	6	–	1,372	–	–	–
Amounts due to banks and non-bank financial institutions	601,073	609,048	466,669	115,648	21,767	4,861	103	–
Trading liabilities	7,519	7,838	–	527	1,809	4,534	576	392
Deposits from customers	5,781,573	5,896,323	3,414,244	240,024	529,015	1,388,180	315,458	9,402
Certificates of deposit issued	11,456	11,905	–	1,626	966	4,456	4,857	–
Other financial liabilities	23,656	23,656	21,305	1,342	274	97	42	596
Subordinated bonds issued	39,933	58,950	–	–	1,190	847	11,090	45,823
	6,466,572	6,609,098	3,902,224	359,167	556,393	1,402,975	332,126	56,213
Off-balance sheet loan commitments and credit card commitments	–	414,031	288,865	14,495	21,499	57,765	21,936	9,471

	As at 31 December 2007							
	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
Amounts due to central banks	50,973	51,398	6	50,417	975	–	–	–
Amounts due to banks and non-bank financial institutions	606,061	609,396	513,110	80,469	11,140	4,645	32	–
Trading liabilities	10,809	11,175	–	3,447	399	6,200	1,129	–
Deposits from customers	5,329,507	5,456,881	3,392,401	209,472	445,909	1,104,738	295,160	9,201
Certificates of deposit issued	9,284	9,835	–	273	1,157	3,837	4,568	–
Other financial liabilities	26,355	26,355	22,504	1,696	580	905	–	670
Subordinated bonds issued	39,928	58,928	–	–	–	2,012	10,954	45,962
	6,072,917	6,223,968	3,928,021	345,774	460,160	1,122,337	311,843	55,833
Off-balance sheet loan commitments and credit card commitments	–	366,602	207,837	28,187	32,836	44,566	38,001	15,175

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

Bank

	As at 30 June 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
Amounts due to central banks	1,362	1,378	6	–	1,372	–	–	–
Amounts due to banks and non-bank financial institutions	598,942	606,901	466,557	114,446	21,276	4,519	103	–
Amounts due to subsidiaries	30,418	30,817	741	11,147	17,527	1,402	–	–
Trading liabilities	7,519	7,838	–	527	1,809	4,534	576	392
Deposits from customers	5,748,974	5,863,081	3,404,336	228,184	520,479	1,386,156	315,457	8,469
Certificates of deposit issued	8,861	9,264	–	1,622	463	2,413	4,766	–
Other financial liabilities	25,321	25,321	20,772	1,348	1,942	663	–	596
Subordinated bonds issued	39,933	58,950	–	–	1,190	847	11,090	45,823
	6,461,330	6,603,550	3,892,412	357,274	566,058	1,400,534	331,992	55,280
Off-balance sheet loan commitments and credit card commitments	–	404,550	288,865	13,667	19,843	51,968	20,736	9,471

	As at 31 December 2007							
	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
Amounts due to central banks	50,973	51,398	6	50,417	975	–	–	–
Amounts due to banks and non-bank financial institutions	605,076	608,401	512,980	80,228	10,520	4,641	32	–
Amounts due to subsidiaries	22,997	23,032	5,668	1,190	11,871	4,099	204	–
Trading liabilities	10,809	11,175	–	3,447	399	6,200	1,129	–
Deposits from customers	5,296,988	5,423,661	3,385,118	191,258	440,363	1,103,519	294,700	8,703
Certificates of deposit issued	8,347	8,856	–	273	1,156	2,859	4,568	–
Other financial liabilities	24,534	24,534	21,994	752	261	857	–	670
Subordinated bonds issued	39,928	58,928	–	–	–	2,012	10,954	45,962
	6,059,652	6,209,985	3,925,766	327,565	465,545	1,124,187	311,587	55,335
Off-balance sheet loan commitments and credit card commitments	–	362,943	205,100	27,953	32,368	44,348	38,000	15,174

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(d) Derivatives

Derivatives include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets. The Group, through the operations of its branch network, structures deals to offer customised risk management products to suit individual customer needs. These positions are actively managed through entering into offsetting deals with external parties to ensure that the Group's net exposures are within acceptable risk levels. The Group also uses derivatives (principally foreign exchange options and swaps, and interest rate swaps) in the management of asset and liability portfolios and structural positions.

Analysed by type of contract

Group

	As at 30 June 2008			As at 31 December 2007		
	Notional amounts	**Assets**	**Liabilities**	Notional amounts	Assets	Liabilities
Interest rate contracts	**202,612**	**5,523**	**5,552**	121,169	1,322	1,403
Currency contracts	**656,353**	**22,297**	**10,272**	584,108	13,308	6,548
Precious metal contracts	**—**	**—**	**—**	67	—	1
Equity instrument contracts	**34**	**1**	**—**	36	2	—
Total	**858,999**	**27,821**	**15,824**	705,380	14,632	7,952

Bank

	As at 30 June 2008			As at 31 December 2007		
	Notional amounts	**Assets**	**Liabilities**	Notional amounts	Assets	Liabilities
Interest rate contracts	**200,779**	**5,522**	**5,542**	120,091	1,308	1,395
Currency contracts	**627,689**	**21,709**	**9,719**	569,020	12,986	6,213
Precious metal contracts	**—**	**—**	**—**	67	—	1
Equity instrument contracts	**34**	**1**	**—**	36	2	—
Total	**828,502**	**27,232**	**15,261**	689,214	14,296	7,609

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

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(d) Derivatives (continued)

Analysed by credit risk-weighted amount

	Group		Bank	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Interest rate contracts	**6,184**	1,843	**6,182**	1,839
Currency contracts	**8,471**	4,040	**8,053**	3,985
Equity instrument contracts	**1**	2	**1**	2
Total	**14,656**	5,885	**14,236**	5,826

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

(e) Operational risks

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 currently adopted by the Group include:

— improving the self-assessment of operational risk and internal control, identified and assess key risk area and optimised measures of internal control; boosted business continuity management, set up emergency recovery plan for major production systems and enhance 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, 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;

— establishing 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;

38 RISK MANAGEMENT (continued)

(e) Operational risks (continued)

— amending and continuously improved the internal control system; 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;

— strengthening business operational checks and balance between departments and different positions, as well as the centralised appointment and rotation of key personnel;

— developing a systematic authorization management and business operational policies;

— backing-up data in the Group's key data processing system to minimise operational risks from an IT malfunction, and setting up a computer disaster recovery centre to automatically backup operational data; and

— setting up an anti-money laundering team within the Legal and Compliance Department to coordinate and monitor the 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 training and publicity activities of anti-money laundering.

(f) Fair value

(i) Financial assets

The Group's financial assets mainly include cash, amounts due from central banks, banks and non-bank financial institutions, loans and advances to customers, and investments.

Amounts due from central banks, banks and non-bank financial institutions

Amounts due from central banks, banks and non-bank financial institutions 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

Loans and advances to customers are mostly priced at floating rates close to the PBC rates. Accordingly, their carrying values approximate the fair values.

Investments

Available-for-sale and trading investments are stated at fair value in the financial statements. The following table shows the carrying values and the fair values of receivables and held-to-maturity debt securities which are not presented on the balance sheet at their fair values.

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(f) Fair value (continued)

(i) Financial assets (continued)

Group

	Carrying values		Fair values	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Receivables	**551,859**	551,336	**545,370**	541,152
Held-to-maturity debt securities	**1,133,461**	1,191,035	**1,116,960**	1,177,626

Bank

	Carrying values		Fair values	
	As at 30 June 2008	As at 31 December 2007	**As at 30 June 2008**	As at 31 December 2007
Receivables	**551,859**	551,336	**545,370**	541,152
Held-to-maturity debt securities	**1,133,063**	1,190,425	**1,116,564**	1,176,332

(ii) Financial liabilities

The Group's financial liabilities mainly include amounts due to central banks, amounts due to banks and non-bank financial institutions, trading financial liabilities, deposits from customers, certificates of deposit issued and subordinated bonds issued. The carrying values of financial liabilities approximated their fair values at the balance sheet date, except that the fair value of subordinated bonds issued as at 30 June 2008 was RMB39,999 million (as at 31 December 2007: RMB39,998 million), which was higher than their carrying value of RMB39,933 million (as at 31 December 2007: RMB39,928 million).

(g) 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.

38 RISK MANAGEMENT (continued)

(g) Capital management (continued)

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 sound operations and risk management capability. 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.

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.

(Expressed in millions of Renminbi unless otherwise stated)

38 RISK MANAGEMENT (continued)

(g) Capital management (continued)

The Group's consolidated regulatory capital position calculated in accordance with the guidelines issued by the CBRC as at 30 June 2008 and 31 December 2007 were as follows:

	As at 30 June 2008	As at 31 December 2007
Core capital adequacy ratio (note(i))	**10.08%**	10.37%
Capital adequacy ratio (note(ii))	**12.06%**	12.58%
Components of capital base		
Core capital:		
— share capital	**233,689**	233,689
— capital reserve, investment revaluation reserve and exchange reserve (note(iv))	**80,635**	85,408
— surplus reserve and general reserve	**64,418**	49,393
— retained earnings (note(iii), (iv))	**34,534**	16,609
— minority interests	**1,368**	1,304
	414,644	386,403
Supplementary capital:		
— general provision for doubtful debts	**35,720**	33,373
— positive changes in fair value of available-for-sale investments and trading financial instruments	**7,603**	10,527
— long-term subordinated debts	**40,000**	40,000
	83,323	83,900
Total capital base before deductions	**497,967**	470,303
Deductions:		
— goodwill	**(1,525)**	(1,624)
— unconsolidated equity investments	**(6,065)**	(4,687)
— others (note(v))	**(337)**	(810)
Total capital base after deductions	**490,040**	463,182
Risk-weighted assets (note(vi))	**4,064,888**	3,683,123

38 RISK MANAGEMENT (continued)

(g) Capital management (continued)

Notes:

(i) 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.

(ii) The capital adequacy ratio is calculated by dividing the total capital base after deductions by risk-weighted assets.

(iii) Retained earnings have been deducted by the dividend proposed by the Bank after the balance sheet date.

(iv) The reserve arising from the cumulative net positive changes in the fair value of available-for-sale investments is excluded from the core capital and 50% of the balance is included in the supplementary capital. In addition, the unrealised cumulative 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.

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

(vi) The balances of risk-weighted assets include 12.5 times of the market risk capital.

39 MATERIAL RELATED PARTY TRANSACTIONS

(a) 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 RMB372,465 billion. Its principal activities are equity investments as authorised by the State Council, without engaging in other commercial operations.

Approved by the State Council, China Investment Corporation ("CIC") was established on 29 September 2007 with a registered capital of USD200 billion. Huijin is a wholly owned subsidiary of CIC and continues to exercise its rights and obligations to the Bank on behalf of PRC government. The application procedure to transfer the equity interests of Huijin to CIC was still in progress at 30 June 2008.

Companies under Huijin include Jianyin, which is wholly owned by Huijin and is one of the Bank's shareholders, and other subsidiaries and associates of Huijin. Jianyin was incorporated as a wholly state-owned company with a registered capital of RMB20.692 billion as a result of the restructuring approved by the State Council in 2004. Its principal activities include equity investments, asset management and other business activities as approved by the relevant PRC government authorities.

As at 30 June 2008, Huijin directly and indirectly owned 67.97% of the issued share capital of the Bank (as at 31 December 2007: 67.97%), of which Huijin directly held 59.12% (as at 31 December 2007: 59.12%) and indirectly through Jianyin held 8.85% (as at 31 December 2007: 8.85%) with the same percentage of voting rights.

The Group's transactions with Huijin, Jianyin and companies under Jianyin, and other subsidiaries and associates 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.

(Expressed in millions of Renminbi unless otherwise stated)

39 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Huijin and companies under Huijin (continued)

The Group has issued subordinated debts with a nominal value of RMB40 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 these banks and other financial institutions at the balance sheet date.

(i) Transactions with Huijin

As part of the Restructuring, Huijin undertook to assume all the debts, obligations and liabilities relating to the business acquired by the Bank, which arose for any reason prior to 31 December 2003 and were not succeeded by the Bank at Restructuring.

Transactions that the Group and the Bank entered into with Huijin are as follows:

Amounts

	Six months ended 30 June			
	2008		2007	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest expenses	**239**	**0.39%**	777	1.86%

Balances outstanding at balance sheet date

	As at 30 June 2008		As at 31 December 2007	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Deposits from customers	**8,261**	**0.14%**	11,938	0.22%
Other liabilities and provisions (note(i-1))	**9,026**	**7.12%**	2	0.01%

Note:

(i-1) Other liabilities and provisions include a dividend payable of RMB8,980 million as at 30 June 2008.

(Expressed in millions of Renminbi unless otherwise stated)

39 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Huijin and companies under Huijin (continued)

(ii) Transactions with Jianyin

Transactions that the Group and the Bank entered into with Jianyin and companies under Jianyin are as follows:

Amounts

	Six months ended 30 June			
	2008		2007	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income	**2**	**0.01%**	12	0.01%
Interest expenses	**404**	**0.66%**	119	0.29%
Fee and commission income	**56**	**0.27%**	—	—
Other operating income, net	**20**	**1.36%**	41	1.38%
Operating expenses (note (ii-1))	**385**	**0.83%**	269	0.72%

Balances outstanding at balance sheet date

	As at 30 June 2008		As at 31 December 2007	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Amounts due from banks and non-bank financial institutions	**90**	**0.07%**	—	—
Loans and advances to customers	**4**	**0.01%**	—	—
Other assets	**543**	**0.69%**	305	0.45%
Amounts due to banks and non-bank financial institutions (note (ii-2))	**39,960**	**6.65%**	70,698	11.67%
Deposits from customers	**680**	**0.01%**	3,247	0.06%
Other liabilities and provisions (note 28 and note (ii-3))	**6,823**	**5.38%**	6,471	6.99%

(Expressed in millions of Renminbi unless otherwise stated)

39 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Huijin and companies under Huijin (continued)

(ii) *Transactions with Jianyin (continued)*

Notes:

(ii-1) This mainly represents 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-2) Deposits from Jianyin and its affiliates are unsecured and are repayable under normal commercial terms.

(ii-3) Other liabilities and provisions include a dividend payable of RMB1,345 million as at 30 June 2008.

(ii-4) The Group disposed of long outstanding receivables with a net book value of RMB73 million at a consideration of RMB92 million to Jianyin during the six months ended 30 June 2007. There was no such transaction between the Group and Jianyin during the six months ended 30 June 2008.

(iii) *Transactions with other subsidiaries of Huijin*

Transactions that the Group and the Bank entered into with other subsidiaries of Huijin are as follows:

Amounts

	Six months ended 30 June			
	2008		2007	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income	**211**	**0.12%**	174	0.13%
Interest expenses	**232**	**0.38%**	60	0.14%
Fee and commission income	**4**	**0.02%**	—	—

Balances outstanding at balance sheet date

	As at 30 June 2008		As at 31 December 2007	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Amounts due from banks and non-bank financial institutions	**7,795**	**6.23%**	6,086	5.94%
Loans and advances to customers	**—**	**—**	3	0.01%
Investment securities	**6,965**	**0.32%**	6,314	0.29%
Other assets	**213**	**0.27%**	—	—
Amounts due to banks and non-bank financial institutions	**18,681**	**3.11%**	22,467	3.71%
Deposits from customers	**128**	**0.01%**	6,566	0.12%
Other liabilities and provisions	**3**	**0.01%**	—	—

(Expressed in millions of Renminbi unless otherwise stated)

39 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Huijin and companies under Huijin (continued)

(iv) Transactions with the associates of Huijin

Transactions that the Group and the Bank entered into with associates of Huijin are as follows:

Amounts

	Six months ended 30 June			
	2008		2007	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income	**6,479**	**3.76%**	195	0.15%
Interest expenses	**227**	**0.37%**	271	0.65%
Fee and commission income	**82**	**0.39%**	—	—
Fee and commission expense	**12**	**1.58%**	—	—

Balances outstanding at balance sheet date

	As at 30 June 2008		As at 31 December 2007	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Amounts due from banks and non-bank financial institutions	**1,606**	**1.28%**	149	0.15%
Trading investments	**4,002**	**5.23%**	—	—
Investment securities	**327,573**	**15.19%**	9,679	0.45%
Other assets	**6,483**	**8.23%**	—	—
Amounts due to banks and non-bank financial institutions	**34,358**	**5.72%**	25,408	4.19%
Deposits from customers	**230**	**0.01%**	946	0.02%
Other liabilities and provisions	**5**	**0.01%**	—	—

(b) Transactions with associate and jointly controlled entity of the Group

There was no material transaction between the Group and its associate and jointly controlled entity during the six months ended 30 June 2008 or 30 June 2007. There was no material outstanding balance between the Group and its associate and jointly controlled entity as at 30 June 2008 and 31 December 2007.

(Expressed in millions of Renminbi unless otherwise stated)

39 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) Transactions between the Bank and its subsidiaries

Transactions between the Bank and its subsidiaries are as follows:

Amounts

	Six months ended 30 June	
	2008	2007
Interest income	**65**	56
Interest expenses	**409**	17
Fee and commission income	**43**	—
Fee and commission expenses	**—**	38
Other operating income	**10**	10

Balances outstanding at balance sheet date

	As at 30 June 2008	As at 31 December 2007
Amounts due from banks and non-bank financial institutions	**32,424**	17,052
Loans and advances to customers	**1,185**	827
Investment securities	**941**	936
Other assets	**12,295**	12,715
Amounts due to banks and non-bank financial institutions	**28,983**	21,080
Deposits from customers	**1,378**	1,448
Other liabilities and provisions	**2,454**	555

(d) 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.

39 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(d) Transactions with other PRC state-owned entities (continued)

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.

(e) 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.

Total emoluments of the Directors, Supervisors, and senior executives for the six months ended at 30 June 2008 are RMB12.44 million (for the six months ended 30 June 2007: RMB10.29 million).

The Group had no material balance of loans and advances to directors, supervisors and senior executives as at 30 June 2008 and 31 December 2007. 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 reducing risk.

(f) Contributions to defined contribution retirement scheme

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 Notes 28(a) and 29(a).

40 ULTIMATE PARENT

The Group is controlled by the PRC government, the majority of the shares are held by Huijin, a government agency.

41 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform with changes in disclosures in current year.

42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of the financial statements, a number of new standards, amendments to standards and interpretations are not yet effective for the six months ended 30 June 2008, and have not been applied in preparing these consolidated financial statements.

The Group is in the process of making assessment of what the impact of these amendments, new standards and new interpretations at 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.

Revised IAS 1 Presentation of Financial Statements requires the separation of changes in equity of an entity arising from transactions with owners from other changes in equity. The Group will apply Revised IAS 1 for annual accounting periods beginning 1 January 2009.

IFRS 8 Operating Segments introduces the "management approach" to segment reporting. The Group will apply IFRS 8 for annual accounting periods beginning 1 January 2009.

(Expressed in millions of Renminbi unless otherwise stated)

The information set out below does not form part of the audited financial statements, and is included herein for information purposes only.

(a) 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 in accordance with the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance, China Securities Regulatory Commission and other regulators of the PRC (collectively "PRC GAAP").

There is no difference in the net profit for the six months ended 30 June 2008 or total equity as at 30 June 2008 between the Group's consolidated financial statements prepared under IFRS and those prepared under PRC GAAP respectively.

(b) LIQUIDITY RATIOS

Group

	As at 30 June 2008	**Average for six months ended 30 June 2008**	As at 30 June 2007	Average for six months ended 30 June 2007
RMB current assets to RMB current liabilities	**48.64%**	**44.81%**	40.54%	39.80%
Foreign currency current assets to foreign currency current liabilities	**123.46%**	**111.98%**	215.15%	207.76%

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

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

(Expressed in millions of Renminbi unless otherwise stated)

(c) CURRENCY CONCENTRATIONS

Group

	As at 30 June 2008			
	USD (RMB equivalent)	**HKD (RMB equivalent)**	**Others (RMB equivalent)**	**Total (RMB equivalent)**
Spot assets	**354,079**	**72,194**	**46,294**	**472,567**
Spot liabilities	**(167,222)**	**(71,932)**	**(37,024)**	**(276,178)**
Forward purchases	**213,545**	**27,246**	**81,483**	**322,274**
Forward sales	**(376,409)**	**(15,174)**	**(90,513)**	**(482,096)**
Net option position	**1**	**(1)**	**—**	**—**
Net long position	**23,994**	**12,333**	**240**	**36,567**
Net structural position	**—**	**136**	**147**	**283**

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

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority (the "HKMA"). The net structural position of the Group includes the structural positions of the Bank's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

— investments in property and equipment and premises, 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)

(d) 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 and Taiwan.

Cross-border claims include loans and advances, balances 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

	As at 30 June 2008			
	Banks and non-bank financial institutions	**Public sector entities**	**Others**	**Total**
Asia Pacific excluding Mainland China	**66,548**	**2,945**	**39,014**	**108,507**
— of which attributed to Hong Kong	**43,757**	**1,409**	**20,471**	**65,637**
Europe	**33,407**	**3,195**	**6,392**	**42,994**
North and South America	**78,866**	**23,155**	**37,405**	**139,426**
	178,821	**29,295**	**82,811**	**290,927**

	As at 31 December 2007			
	Banks and non-bank financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	42,051	1,355	32,515	75,921
— of which attributed to Hong Kong	12,706	899	17,102	30,707
Europe	57,474	—	10,064	67,538
North and South America	114,802	68,146	49,984	232,932
	214,327	69,501	92,563	376,391

The above cross-border claims are disclosed in accordance with the requirements of the Rule. According to these requirements, "Others" includes the transactions with sovereign. Prior to 2007, these transactions are disclosed in "Public sector entities". Comparative figures have been revised to conform with current year's presentation.

(Expressed in millions of Renminbi unless otherwise stated)

(e) OVERDUE LOANS AND ADVANCES TO CUSTOMERS BY GEOGRAPHICAL SECTOR

Group

	As at 30 June 2008	As at 31 December 2007
Yangtze River Delta	**6,773**	7,996
Pearl River Delta	**7,734**	9,552
Bohai Rim	**15,418**	18,702
Central	**11,731**	11,710
Western	**9,708**	10,468
Northeastern	**6,292**	6,232
Head office	**1,513**	2,186
Overseas	**306**	177
Total	**59,475**	67,023

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

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 2008, the loans and advances to customers of RMB48,706 million (as at 31 December 2007: RMB56,981 million) and RMB10,769 million (as at 31 December 2007: RMB10,042 million) of the above overdue loans and advances were subject to individual assessment and collective assessment for impairment respectively. The covered portion and uncovered portion of these individually assessed loans and advances were RMB10,503 million and RMB38,203 million respectively (as at 31 December 2007: RMB13,058 million and RMB43,923 million respectively). The fair value of collaterals held against these individually assessed loans and advances was RMB12,930 million (as at 31 December 2007: RMB16,406 million). The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation. The impairment allowances made against these individually assessed loans and advances were RMB35,534 million (as at 31 December 2007: RMB41,635 million).

(f) 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 2008, 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.

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