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中國工商銀行股份有限公司
INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED
(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1398)

2008 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors of Industrial and Commercial Bank of China Limited (the “Bank”) is pleased to announce the annual audited results of the Bank and its subsidiaries (the “Group”) for the year ended 31 December 2008. The Board of Directors and the Audit Committee of the Board of Directors of the Bank have reviewed and confirmed the annual audited results.

1. Important Notice

The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management members of Industrial and Commercial Bank of China Limited undertake that the information in this Results Announcement contains no false record, misleading statement or material omission, and assume individual and joint and several liabilities to the authenticity, accuracy and completeness of the information in this Results Announcement.

The meeting of the Board of Directors of the Bank held on 25 March 2009 reviewed and approved the 2008 Annual Report and the Results Announcement. All directors attended the meeting.

The 2008 financial statements prepared by the Bank in accordance with Chinese Accounting Standards (“CASs”) and International Financial Reporting Standards (“IFRSs”) have been audited by Ernst & Young Hua Ming and Ernst & Young, respectively, based on Chinese and International Standards on Audit, with standard unqualified auditors’ reports being issued.

Board of Directors of Industrial and Commercial Bank of China Limited
25 March 2009

Mr. Jiang Jianqing, the Legal Representative of the Bank, Mr. Yang Kaisheng, President in charge of finance of the Bank, and Mr. Shen Rujun, General Manager of the Finance and Accounting Department of the Bank, hereby warrant and guarantee that the financial statements contained in the Annual Report are authentic and complete.

2. Corporate Information

2.1 Basic Information

Stock name	工商銀行 (A Share)	ICBC (H Share)
Stock code	601398	1398
Stock exchange on which shares are listed	Shanghai Stock Exchange	The Stock Exchange of Hong Kong Limited
Registered address and office address	No. 55 Fuxingmennei Avenue, Xicheng District, Beijing, People's Republic of China	
Postal code	100140	
Website	www.icbc.com.cn, www.icbc-ltd.com	
E-mail	ir@icbc.com.cn	

2.2 Contact

Board Secretary and Company Secretary

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3. Financial Highlights

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

3.1 Financial Data

	2008	2007	2006
Annual operating results (in RMB millions)			
Net interest income	263,037	224,465	163,542
Net fee and commission income ⁽¹⁾	44,002	38,359	16,344
Operating income ⁽¹⁾	310,195	257,428	181,638
Allowance for impairment losses	55,462	37,406	32,189
Operating expenses ⁽¹⁾	111,335	104,660	77,397
Operating profit	143,398	115,362	72,052
Profit before tax	145,376	115,378	72,065
Profit after tax	111,226	82,254	49,880
Net profit attributable to equity holders of the parent company	110,841	81,520	49,263
Net cash flow generated from operating activities	370,913	296,129	382,271
Cash dividend (with tax) ⁽²⁾	55,113	44,425	5,344
As at the end of the reporting period (in RMB millions)			
Total assets	9,757,146	8,683,712	7,508,751
Total loans and advances to customers	4,571,994	4,073,229	3,631,171
Allowance for impairment losses of loans	135,983	115,687	97,193
Net investment in securities	3,048,310	3,107,328	2,860,798
Total liabilities	9,150,516	8,140,036	7,037,750
Due to customers	8,223,446	6,898,413	6,326,390
Due to banks and other financial institutions	646,254	805,174	400,318
Equity attributable to equity holders of the parent company	602,675	538,371	466,464
Net capital base	620,033	576,741	530,805
Net core capital base	510,549	484,085	462,019
Supplementary capital	121,998	94,648	69,650
Risk-weighted assets ⁽³⁾	4,748,893	4,405,345	3,779,170
Per share data (in RMB)			
Net assets per share ⁽⁴⁾	1.80	1.61	1.40
Basic earnings per share	0.33	0.24	0.18
Diluted earnings per share	0.33	0.24	0.18
Net cash flow per share from operating activities	1.11	0.89	1.14
Credit rating			
S&P ⁽⁵⁾	A-/Positive	A-/Positive	BBB+/Positive
Moody's ⁽⁵⁾	A1/Stable	A1/Stable	A2/Positive

- Notes: (1) The Bank has changed the classification of certain components of net fee and commission income since the first half of 2008 (see the Interim Report 2008 of the Bank). For comparison purpose, this Results Announcement restated the net fee and commission income, operating income and operating expense of 2007.
- (2) The amount of cash dividend proposed by the Board of Directors is subject to the approval at the annual general meeting for 2008. The amount of cash dividend of 2006 excludes the interim dividend and special dividend distributed prior to the listing.
- (3) Being risk-weighted assets and market risk capital adjustment. Please refer to “Discussion and Analysis — Capital Adequacy Ratio”.
- (4) Calculated by dividing the equity attributable to equity holders of the parent company at the end of the reporting period by the number of shares issued at the end of the reporting period.
- (5) The rating result represents “long-term foreign currency deposits rating/outlook”.

3.2 Financial Indicators

	2008	2007	2006
Profitability (%)			
Return on average total assets ⁽¹⁾	1.21	1.02	0.71
Return on weighted average equity ⁽²⁾	19.43	16.23	15.37
Net interest spread ⁽³⁾	2.80	2.67	2.32
Net interest margin ⁽⁴⁾	2.95	2.80	2.41
Return on risk-weighted assets ⁽⁵⁾	2.43	2.01	1.44
Ratio of net fee and commission income to operating income	14.19	14.90	9.00
Cost-to-income ratio ⁽⁶⁾	29.84	35.02	36.32
Ratio of cash dividend ⁽⁷⁾	<u>50</u>	<u>54</u>	<u>59</u>
Asset quality (%)			
Non-performing loans (“NPL”) ratio ⁽⁸⁾	2.29	2.74	3.79
Allowance to NPL ⁽⁹⁾	130.15	103.50	70.56
Allowance to total loans ratio ⁽¹⁰⁾	<u>2.97</u>	<u>2.84</u>	<u>2.68</u>
Capital adequacy (%)			
Core capital adequacy ratio ⁽¹¹⁾	10.75	10.99	12.23
Capital adequacy ratio ⁽¹¹⁾	13.06	13.09	14.05
Total equity to total assets ratio	6.22	6.26	6.27
Risk-weighted assets to total assets ratio	<u>48.67</u>	<u>50.73</u>	<u>50.33</u>

- Notes:*
- (1) Calculated by dividing profit after tax by the average balance of total assets at the beginning and end of the period.
 - (2) Calculated by dividing profit attributable to equity holders of the parent company by the average balance of equity attributable to equity holders of the parent company in accordance with the “Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9 — Computation and Disclosure of Return on Net Assets and Earnings per Share (Amended in 2007)” issued by China Securities Regulatory Commission (“CSRC”).
 - (3) Calculated by the spread between yield on average balance of interest-earning assets and cost on average balance of interest-bearing liabilities.
 - (4) Calculated by dividing the net interest income by the average balance of interest-earning assets.
 - (5) Calculated by dividing the profit after tax by the average balance of risk-weighted assets and adjustment to market risk capital at the beginning and end of the period.
 - (6) Calculated by dividing the operating expenses (less business tax and surcharges) by operating income.
 - (7) Calculated by dividing the cash dividend (with tax) by net profit attributable to equity holders of the parent company of the period. The cash dividend of 2006 is the ratio of cash dividend distributed in 2006 after listing to the net profit (before restatement) earned from the date of initial public offering to 31 December 2006.
 - (8) Calculated by dividing the balance of NPL by total balance of loans and advances to customers.
 - (9) Calculated by dividing the allowance for impairment losses on loans and advances by total balance of NPL.
 - (10) Calculated by dividing allowance for impairment losses on loans and advances by total balance of loans and advances to customers.
 - (11) Please refer to “Discussion and Analysis — Capital Adequacy Ratio”.

3.3 Five-Year Financial Summary

	2008	2007	2006	2005	2004
Annual operating results					
(in RMB millions)					
Net interest income ⁽¹⁾	263,037	224,465	163,542	153,603	134,728
Net fee and commission income	44,002	38,359	16,344	10,546	8,208
Operating income	310,195	257,428	181,638	171,620	147,959
Profit before tax	145,376	115,378	72,065	63,026	54,411
Profit after tax	111,226	82,254	49,880	38,019	31,218
Net profit attributable to equity holders of the parent company	<u>110,841</u>	<u>81,520</u>	<u>49,263</u>	<u>37,555</u>	<u>30,863</u>
As at the end of the reporting period					
(in RMB millions)					
Total assets	9,757,146	8,683,712	7,508,751	6,456,131	5,069,324
Loans and advances to customers, net	4,436,011	3,957,542	3,533,978	3,205,861	3,109,191
Net investment in securities	3,048,310	3,107,328	2,860,798	2,305,689	1,230,416
Total liabilities	9,150,516	8,140,036	7,037,750	6,196,255	5,577,369
Due to customers	8,223,446	6,898,413	6,326,390	5,736,866	5,176,282
Equity attributable to equity holders of the parent company	<u>602,675</u>	<u>538,371</u>	<u>466,464</u>	<u>255,839</u>	<u>(511,713)</u>
Per share data (in RMB)					
Basic earnings per share	0.33	0.24	0.18	0.15	0.12
Diluted earnings per share	<u>0.33</u>	<u>0.24</u>	<u>0.18</u>	<u>0.15</u>	<u>0.12</u>
Financial indicators (%)					
Return on average total assets	1.21	1.02	0.71	0.66	0.65
Net interest spread	2.80	2.67	2.32	2.58	2.54
Net interest margin	2.95	2.80	2.41	2.61	2.55
Ratio of net fee and commission income to operating income	14.19	14.90	9.00	6.14	5.55
Cost-to-income ratio ⁽²⁾	29.84	35.02	36.32	40.09	34.02
NPL ratio	2.29	2.74	3.79	4.69	21.16
Allowance to NPL	130.15	103.50	70.56	54.20	76.28
Allowance to total loans ratio	<u>2.97</u>	<u>2.84</u>	<u>2.68</u>	<u>2.54</u>	<u>16.14</u>

Notes: (1) Due to the changes in the presentation of the financial statements, the approaches adopted to calculate the “net interest income” of 2006–2008 and 2004–2005 are different. Please refer to the Bank’s 2007 Annual Report for details.

(2) Calculated by dividing the operating expense (less business tax and surcharges and expenses in relation to the special government bond for 2004 and the period ended 30 November 2005) by the operating income (less interest income from the special government bond for 2004 and the period ended 30 November 2005).

3.4 Other Financial Indicators

		Regulatory Criteria	2008	2007	2006
Liquidity ratio (%) ⁽²⁾	RMB	>=25.0	33.3	26.8	48.9
	Foreign currency	>=25.0	83.5	97.9	84.8
Loan-to-deposit ratio (%) ⁽³⁾	RMB and foreign currency	<=75.0	56.4	56.3	51.4
	Percentage of loans to single largest customer (%) ⁽⁴⁾	<=10.0	2.9	3.1	3.1
Percentage of loans to top 10 customers (%) ⁽⁵⁾			20.4	21.1	21.7
Loan migration ratio (%) ⁽⁶⁾	Pass		4.6	3.5	—
	Special mention		9.3	10.4	—
	Sub-standard		39.4	41.3	—
	Doubtful		10.2	10.2	—

Notes: (1) The regulatory ratios in the table are calculated in accordance with related regulatory requirements and accounting standards. The comparative figures are not restated.

(2) Calculated by dividing the year end balance of current assets by the year end balance of current liabilities. The scope of current assets and current liabilities has been reduced based on the “Notice on Official Execution of 2007 Off-site Supervisory Information System” issued by China Banking Regulatory Commission (“CBRC”) and the liquidity ratios as at the end of 2008 and 2007 are calculated accordingly.

(3) Calculated by dividing loan balance by deposit balance. Loan balances at the end of 2007 and 2006 exclude the discounted bills and the deposit balances exclude fiscal deposits and outward remittance.

(4) Calculated by dividing loans to the single largest customer by net capital base.

(5) Calculated by dividing loans to the top ten customers in aggregate by net capital base.

(6) Calculated in accordance with the “Notice on Printing and Distribution of Definitions and Formulas of Off-site Supervisory Indicators” issued by CBRC.

3.5 Differences between the Financial Statements Prepared under IFRSs and Those Prepared in accordance with CASs

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

	<i>In RMB millions</i>	
	2008	2007
Profit for the year attributable to equity holders of the parent company under CASs	110,766	81,256
Adjustment of revaluation surplus on disposed of assets and impairment loss	<u>75</u>	<u>264</u>
Profit for the year attributable to equity holders of the parent company under IFRSs	<u>110,841</u>	<u>81,520</u>
	2008	2007
Equity attributable to equity holders of the parent company under CASs	603,183	538,947
Reversal of revaluation surplus	<u>(508)</u>	<u>(576)</u>
Equity attributable to equity holders of the parent company under IFRSs	<u>602,675</u>	<u>538,371</u>

During the Group's restructuring, the Group performed revaluation on assets pursuant to relevant requirements, with the revaluation surplus recognized in the capital reserve in the financial statements prepared under CASs. Under IFRSs, certain assets were carried at cost and the revaluation surplus was reversed. Upon disposal of or when such assets are impaired, adjustments on recognition of the revaluation surplus and impairment loss were reversed accordingly. In addition, for the available-for-sale equity investments included in these assets, when they meet the specific conditions to be measured at fair value under IFRSs, the adjustments on reversal of revaluation surplus were made to the investment revaluation reserve.

3.6 Movement of Financial Instruments Measured at Fair Value and the Effect on Profit or Loss

The following table is prepared pursuant to the format prescribed by CSRC in the “No. 2 Standards on the Content and Format of Information Disclosure of Companies with Public Offerings — Content and Format of the Annual Report” (Revision 2007).

MOVEMENT OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

In RMB millions

Item	Balance at the beginning of the year	Balance at the end of the year	Change in current year	Effects on profit for the year
Financial assets designated at fair value				
through profit or loss	34,321	33,641	(680)	81
Available-for-sale financial assets	528,135	535,690	7,555	(16,162)
Derivative financial assets	22,769	15,721	(7,048)	(7,048)
Total financial assets	<u>585,225</u>	<u>585,052</u>	<u>(173)</u>	<u>(23,129)</u>
Financial liabilities designated at fair value				
through profit or loss	15,590	11,834	(3,756)	(169)
Derivative financial liabilities	7,127	13,612	6,485	(6,485)
Total financial liabilities	<u>22,717</u>	<u>25,446</u>	<u>2,729</u>	<u>(6,654)</u>

4. Business Review

In the extraordinary year of 2008, the Bank experienced austere challenges from the global financial turmoil just like its peers at home and abroad. However, it is quite a relief to see that, through proactive response and painstaking efforts, the Bank continued to demonstrate strong competitiveness, risk resistibility and growth in financial performance in the complicated and volatile business environment, and made satisfactory achievements for its shareholders, investors, depositors and the society.

In an extremely volatile business environment, the Bank continued its vigorous profit growth. In response to the unprecedented international financial crisis, sluggish capital markets, interest rate adjustment and massive natural disasters which resulted in income reduction and expenditure increase, the Bank accelerated its innovation, adjusted its business structure, broadened its sources of income and cut back its expenditures. Due to these measures, the Bank's profit after tax hit a record high in 2008, reaching RMB111,226 million, an increase of 35.2% over the previous year, and maintained a robust momentum of growth since the international audit was introduced in 2003. The satisfactory financial business performance is attributed to the ceaseless efforts in refining the income structure. Despite the continuous narrowing of the nominal interest spread in 2008, the net interest margin (NIM) still increased by 0.15 percentage point year-on-year to 2.95%, which is primarily due to the improvement of business structure. Net fee and commission income totaled RMB44,002 million, accounting for 14.19% of operating income.

While keeping up with the dynamics of the macro-economy, the Bank gave full play to its role as a leading bank in the national economy. In the past year, we proactively designed our credit policy so as to conform with the national fiscal policy, industrial policy and regional policy, and controlled the total exposure and structure of credits at a reasonable level. Following the third quarter of 2008, the Bank increased its lending in line with the orientation, focus and strength of China's macro economic policy. In the fourth quarter, the Bank further accelerated the pace of credit extension. New RMB loans extended by domestic branches increased by RMB190,065 million or 14.3% to RMB536,765 million in 2008, ranking first among all financial institutions in China. Such loans were mainly used to support the construction of key projects in China and to finance key industries and key customers conforming to the national industrial policy. The Bank actively supported the development of small and medium enterprises and expansion of consumption. Small and medium enterprise loans and personal loans extended by domestic branches grew by RMB200,842 million and RMB77,229 million, respectively, the sum of which accounted for 51.8% of total new loans. The Bank also supported independent innovation, energy conservation and environmental protection through imposing limitations on lending to industries with high energy consumption, high pollution and overcapacity, thereby promoting environmental protection and resources conservation through financial leverage means.

The Bank achieved healthy and robust business development in its various businesses despite the increasingly fierce market competition. In response to the changes in customers' cash flows, the Bank promptly adjusted its business strategy and realized coordinated growth of both the deposit-taking and the wealth management businesses. New customer deposits in 2008 reached RMB1,325,033 million, hitting a record high, and increased by RMB753,010 million over the previous year, and incremental deposit ranked first in the market. The sales of banking wealth management products amounted to RMB2,129.7 billion, maintaining a leading position in the industry. Various emerging business lines continued their rapid and healthy development, and all major indicators ranked first in domestic banking industry. In 2008, the Bank maintained its top position as underwriter of bonds, with a total of 52 bonds with an aggregate amount of RMB164.6 billion underwritten. The Bank has been the No. 1 custodian bank in China for 10 consecutive years in terms of the size of assets under custody, and maintained a leading position in the fields of fund management and insurance products agency. It holds a market share of close to 50% in major markets of the enterprise annuity business, making it the largest enterprise annuity service institution in China. The Bank issued over 238 million bank cards, with consumption volume of nearly RMB800.0 billion in 2008, of which more than 39 million in number and RMB250.0 billion in consumption volume were credit cards. The Bank's leading position is further strengthened. The functionality and service modes of E-banking products were continuously upgraded, and off-counter business accounted for 43.1% of the Bank's total business volume, improving service efficiency and reducing operating costs.

The Bank effectively controlled risks in coping with the impact of the global financial crisis. Based on the principle of prudent operation, the Bank stepped up its efforts in applying the internal rating-based approach in assessing credit risk, thereby further improving its risk management capability and attaining the objective of controlling the overall risks in the recent global financial turmoil. Since early 2008, the Bank adjusted its investment strategy, optimized its investment portfolio and currency portfolio in response to the changes in the international financial market. The Bank substantially reduced its outstanding position in risky foreign

currency denominated bonds and used the proceeds to conduct frequent trading in low-risk bonds, making some profits to offset the loss from the reduction in high-risk bond positions and protected the Bank against potentially high risks. As at the end of 2008, the balance of non-performing loans (NPLs) dropped by RMB7,292 million, and NPL ratio decreased by 0.45 percentage point to 2.29%. The NPL balance and NPL ratio have declined for nine successive years. Allowance to NPL reached 130.15%, an increase of 26.65 percentage points over the previous year, further enhancing the Bank's ability to resist risks.

Provision of financial services for the Beijing Olympic Games improved the Bank's services level and brand image. Following a customer-centered modern servicing concept, the Bank leveraged on the opportunity of the "Olympic Service Year" to improve its service capability by a far margin and continuously refined its customer services. With "zero accident" and "zero complaint" during the Olympic Games, we made active contributions to the successful hosting of the Olympic Games. In 2008, the Bank launched private banking services to cater for the needs of the growing economy for diversified financial services. A total of 100 wealth management centers and 3,000 VIP wealth management centers were established, and a large number of outlets were renovated. E-banking service network coverage was enhanced and a multi-level regional service system took shape. The customer services became more refined and personalized. In respect of technological innovation, the Bank continued to maintain a leading position in the industry, with a number of key projects in operation. The construction of the 4th-generation application system that targets future financial services needs has formally commenced. With accelerated products innovation, the Bank provides over 2,055 financial products, making it one of the banking institutions in China with the most financial products in number and category offered. Through a comprehensive improvement in services, the Bank has instilled its new concept and values to the minds of our customers.

However, we must stay alert and think ahead. We are well aware that the Bank will face severe challenges in 2009, and at the same time, 2009 presents us with significant development opportunity. We shall continue to be brave and confident, and shall push forward the implementation of our new three-year development plan. We shall combat various challenges in a proactive attitude. We shall strive to achieve healthy, steady and rapid development in complicated environment and open a new chapter in our development towards a first class financial institution in the world.

5. Details of Changes in Share Capital and Shareholding of Substantial Shareholders

5.1 Changes in Share Capital

5.1.1 Details of Changes in Share Capital

Unit: Share

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

Notes: (1) Please refer to the table headed “Details of Changes in the Shares subject to Restriction on Sales” for detailed information on changes in share capital during the reporting period.

(2) For the purpose of this table, “state-owned shares” specifically refers to the shares held by the Ministry of Finance of the People’s Republic of China (“MOF”) and Central SAFE Investments Limited (“Huijin”). “Shares held by other domestic investors” refers to the shares held by National Council for Social Security Fund (“SSF”) and A shares strategic investors. “Shares held by foreign investors” refers to the shares held by foreign strategic investors, including the Goldman Sachs Group, Inc. (“Goldman Sachs”), Allianz Group (“Allianz”) and American Express Company (“American Express”). “Foreign shares listed overseas”, namely H shares, are defined pursuant to “No. 5 Standards on the Content and Format of Information Disclosure of Companies with Public Offerings — Content and Format of the Corporate Shareholding Change Report” (Revision 2007) of CSRC.

(3) Shares subject to restrictions on sales refer to shares held by shareholders who are subject to restrictions on sales in accordance with applicable laws and regulations or undertakings.

5.1.2 Details of Changes in the Shares subject to Restriction on Sales

Unit: Share

Name of shareholder	Number of shares subject to restriction on sales at the beginning of the period	Number of shares released from restriction on sales in the period	Number of additional shares subject to restriction on sales in the period	Number of shares subject to restriction on sales at the end of the period	Reason for restriction	Release date
A shares strategic investors	2,884,610,000	2,884,610,000	0	0	Restriction upon issuance	27 April 2008
Total	2,884,610,000	2,884,610,000	0	0	—	—

5.2 Shareholding of Top 10 Shareholders and Top 10 Shareholders Holding Tradable Shares or Shareholders not subject to Restriction on Sales

5.2.1 Particulars of Top 10 Shareholders

As at the end of the reporting period, the Bank had a total of 1,662,308 shareholders, including 175,537 holders of H shares and 1,486,771 holders of A shares.

Particulars of Shareholding of the Top 10 Shareholders (Particulars of shareholding of holders of H shares were based on the Bank's share register maintained at the H share registrar)

Number of Shareholders and Particulars of Shareholding

Unit: Share

Total number of shareholders 1,662,308 (number of holders of A shares and H shares on the share register as at 31 December 2008)

Particulars of shareholding of the top 10 shareholders (The following data are based on the share register as at 31 December 2008)

Name of shareholder	Nature of shareholder	Type of shares	Shareholding percentage (%)	Total number of shares held	Number of shares subject to restriction on sales	Number of pledged or locked-up shares
Huijin	State-owned shares	A shares	35.4	118,262,816,713	118,006,174,032	None
MOF	State-owned shares	A shares	35.3	118,006,174,032	118,006,174,032	None
HKSCC Nominees Limited	Foreign investment	H shares	13.2	44,209,789,188	0	Unknown
Goldman Sachs	Foreign investment	H shares	4.9	16,476,014,155	16,476,014,155	Unknown
SSF	Others	H shares	4.2	14,102,149,559	14,102,149,559	Unknown
DRESDNER BANK LUXEMBOURG S.A. ⁽¹⁾	Foreign investment	H shares	1.9	6,432,601,015	6,432,601,015	Unknown
American Express	Foreign investment	H shares	0.4	1,276,122,233	1,276,122,233	Unknown
China Life Insurance (Group) Company — Traditional — Ordinary insurance products	Others	A shares	0.2	695,027,367	0	None
China Huarong Asset Management Corporation	Others	A shares	0.1	480,769,000	0	None
China Life Insurance Company Limited — Traditional — Ordinary insurance products — 005L — CT001 Hu	Others	A shares	0.1	343,488,638	0	None

Note: (1) As at 31 December 2008, DRESDNER BANK LUXEMBOURG S.A. is a wholly-owned subsidiary of Allianz, through which Allianz holds shares in the Bank.

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

**5.2.2 Particulars of Shareholding of the Top 10 Shareholders not subject to Restriction on Sales
(The following data are based on the share register as at 31 December 2008)**

Name of shareholder	<i>Unit: Share</i>	
	Number of shares not subject to restriction on sales	Type of shares
HKSCC Nominees Limited	44,209,789,188	H shares
China Life Insurance (Group) Company — Traditional — Ordinary insurance products	695,027,367	A shares
China Huarong Asset Management Corporation	480,769,000	A shares
China Life Insurance Company Limited — Traditional — Ordinary insurance products — 005L — CT001 Hu	343,488,638	A shares
China Life Insurance Company Limited — Dividend distribution — Personal dividend — 005L — FH002 Hu	296,832,643	A shares
Huijin	256,642,681	A shares
E-Fund 50 Index Securities Investment Fund	236,074,397	A shares
Beijing Meihua Hengrun Industrial Co., Ltd.	217,972,438	A shares
Dongfeng Motor Corporation	160,256,000	A shares
Capital Airports Holding Company	160,256,000	A shares

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

5.2.3 Particulars of Substantial Shareholders

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

Substantial Shareholders

The largest single shareholder of the Bank is Huijin⁽¹⁾, which holds approximately 35.4% of the shares of the Bank. On 23 September 2008, Huijin increased its shareholding in the Bank through on-market purchase on SSE⁽²⁾. As at 31 December 2008, Huijin increased its shareholding in the Bank by 256,642,681 A shares accumulatively, representing approximately 0.077% of the Bank's total issued share capital.

Notes: (1) For details of the establishment of China Investment Corporation and its relationship with Huijin, please refer to the Bank's announcement published on the websites of The Stock Exchange of Hong Kong Limited ("SEHK") and Shanghai Stock Exchange ("SSE") on 8 October and 9 October 2007, respectively.

(2) Please refer to the Bank's announcement published on the websites of SEHK and SSE on 23 September and 24 September 2008, respectively, for particulars of the initial increase in shareholding of the Bank by Huijin and the future stake increase plan.

Huijin is a wholly state-owned company incorporated on 16 December 2003 under the Company Law of the People's Republic of China. Huijin had a registered capital of RMB372,465 million as at 31 December 2008, and its legal representative is Mr. Lou Jiwei. Huijin makes equity investment in the Bank as authorized by the State Council, and exercises the contributor's rights and obligations in the Bank up to its contribution on behalf of the state to achieve preservation and appreciation of state-owned financial assets. Huijin does not engage in any other commercial activities or intervene daily operation of the Bank.

The second largest single shareholder of the Bank is MOF, which holds approximately 35.3% of the shares of the Bank. MOF is a constituent part of the State Council, and is responsible for overseeing the state's fiscal revenue and expenditure, formulating the financial and taxation policies, and supervising state finance at a macro level.

6. Directors, Supervisors and Senior Management

6.1 Brief Particulars of Directors, Supervisors and Senior Management⁽¹⁾

Name	Position	Gender	Age	Tenure	Shares held at the beginning of the year	Shares held at the end of the year	Reasons for changes	Whether or not the remuneration is collected from the shareholder entities or other connected entities
Jiang Jianqing	Chairman of the Board of Directors, Executive Director	Male	55	October 2008– October 2011	0	0	—	No
Yang Kaisheng	Vice Chairman of the Board of Directors, Executive Director, President	Male	59	October 2008– October 2011	0	0	—	No
Zhao Lin	Chairman of the Board of Supervisors	Male	54	June 2008– June 2011	0	0	—	No
Zhang Furong	Executive Director, Vice President	Male	56	October 2008– October 2011	0	0	—	No
Niu Ximing	Executive Director, Vice President	Male	52	October 2008– October 2011	0	0	—	No
Huan Huiwu	Non-executive Director	Male	55	February 2009– February 2012	0	0	—	Yes
Gao Jianhong	Non-executive Director	Male	44	December 2008– December 2011	0	0	—	Yes
Li Chunxiang	Non-executive Director	Female	53	February 2009– February 2012	0	0	—	Yes
Li Jun	Non-executive Director	Male	49	December 2008– December 2011	0	0	—	Yes
Li Xiwen	Non-executive Director	Male	60	December 2008– December 2011	0	0	—	Yes
Wei Fusheng	Non-executive Director	Male	53	February 2009– February 2012	0	0	—	Yes
Christopher A. Cole	Non-executive Director	Male	49	June 2006– June 2009	0	0	—	Yes
Leung Kam Chung, Antony	Independent Non-executive Director	Male	56	October 2008– October 2011	0	0	—	No
Qian Yingyi	Independent Non-executive Director	Male	52	October 2008– October 2011	0	0	—	No
Xu Shanda	Independent Non-executive Director	Male	61	September 2007– September 2010	0	0	—	No
Wong Kwong Shing, Frank	Independent Non-executive Director	Male	60	January 2009– January 2012	0	0	—	No
Wang Chixi	Shareholder Supervisor	Female	53	October 2008– October 2011	0	0	—	No
Wang Daocheng ⁽²⁾	External Supervisor	Male	68	October 2005– October 2008	0	0	—	No
Miao Gengshu ⁽²⁾	External Supervisor	Male	67	October 2005– October 2008	0	0	—	No
Zhang Wei	Employee Supervisor	Male	46	August 2006– August 2009	0	0	—	No
Wang Lili	Vice President	Female	57	October 2005–	0	0	—	No
Li Xiaopeng	Vice President	Male	49	October 2005–	0	0	—	No
Liu Lixian	Secretary of Party Discipline Committee	Male	54	October 2005–	0	0	—	No
Yi Huiman	Vice President	Male	44	July 2008–	0	0	—	No
Wei Guoxiong	Chief Risk Officer	Male	53	August 2006–	0	0	—	No
Gu Shu	Board Secretary	Male	41	July 2008–	0	0	—	No

Notes: (1) Please refer to “Directors, Supervisors and Senior Management — Appointment and Removal”.

- (2) The tenure of Mr. Wang Daocheng and Mr. Miao Gengshu expired in October 2008. In accordance with the Articles of Association of the Bank, the original supervisors shall continue to perform their duties until the new external supervisors are elected by the Shareholders’ General Meeting.

As at the end of the reporting period, the Bank did not implement any share incentive scheme. Directors, Supervisors and Senior Management members of the Bank did not hold any share option or were granted any restricted shares.

6.2 Appointment and Removal

At the First Extraordinary General Meeting for the Year 2008 held on 27 October 2008, Mr. Jiang Jianqing, Mr. Yang Kaisheng, Mr. Zhang Furong and Mr. Niu Ximing were re-elected as Executive Directors of the Bank, Mr. Leung Kam Chung, Antony, Mr. John L. Thornton and Mr. Qian Yingyi were re-elected as Independent Non-executive Directors of the Bank, Mr. Huan Huiwu, Ms. Li Chunxiang, Mr. Wei Fusheng, Mr. Gao Jianhong, Mr. Li Jun and Mr. Li Xiwen were elected as Non-executive Directors of the Bank, and Mr. Wong Kwong Shing, Frank was elected as an Independent Non-executive Director of the Bank.

The appointment of Mr. Gao Jianhong, Mr. Li Jun and Mr. Li Xiwen were approved by CBRC on 17 December 2008. The appointment of Mr. Wong Kwong Shing, Frank was approved by CBRC on 9 January 2009. The appointment of Mr. Huan Huiwu, Ms. Li Chunxiang and Mr. Wei Fusheng were approved by CBRC on 17 February 2009.

Mr. Wang Wenyan, Ms. Zhao Haiying and Mr. Zhong Jian’an ceased to act as Directors of the Bank with effect from 17 December 2008 upon completion of their tenure, Mr. Fu Zhongjun, Mr. Kang Xuejun and Mr. Song Zhigang ceased to act as Directors of the Bank with effect from 17 February 2009 upon completion of their tenure, and Mr. John L. Thornton ceased to act as an Independent Non-executive Director of the Bank with effect from 19 November 2008 due to other business commitments.

At the Annual General Meeting (AGM) for the Year 2007 held on 5 June 2008, Mr. Zhao Lin was elected as a Supervisor of the Bank with effect from the date of approval at the AGM. At the sixteenth meeting of the first session of the Board of Supervisors held on 10 June 2008, Mr. Zhao Lin was elected as the Chairman of the Board of Supervisors.

At the First Extraordinary General Meeting for the Year 2008 held on 27 October 2008, Ms. Wang Chixi was re-elected as Shareholder Supervisor of the Bank.

Due to relevant requirements and his age, Mr. Wang Weiqiang tendered his resignation from his positions of Supervisor and Chairman of the Board of Supervisors of the Bank at the sixteenth meeting of the first session of the Board of Supervisors. His resignation took effect from 10 June 2008.

At the thirty-fifth meeting of the first session of the Board of Directors held on 7 May 2008, Mr. Yi Huiman was appointed as Vice President of the Bank, and his appointment was approved by CBRC on 6 July 2008; and Mr. Gu Shu was appointed as Board Secretary of the Bank, and concurrently serves as Company Secretary and Authorized Representative of the Bank. The appointment of Mr. Gu Shu as Board Secretary of the Bank was approved by CBRC on 8 July 2008, and the appointment of him as Company Secretary and Authorized Representative of the Bank was approved by SEHK on 14 May 2008.

Mr. Zhang Qu retired on 29 April 2008 due to age and would no longer serve as Vice President of the Bank. Mr. Pan Gongsheng resigned from his positions of Board Secretary, Company Secretary and Authorized Representative of the Bank with effect from 7 May 2008.

6.3 Annual Remuneration

In RMB10,000

Name	Position	Salary before tax and allowance	Pre-tax bonus	Contribution by the employer to social insurance, housing allowance, annuities, and additional medical insurances	Part-time fee	Total before tax
Jiang Jianqing	Chairman of the Board of Directors, Executive Director	80.0	65.8	15.2		161.0
Yang Kaisheng	Vice Chairman of the Board of Directors, Executive Director, President	76.0	64.3	13.2		153.5
Zhao Lin	Chairman of the Board of Supervisors	42.0	34.5	7.8		84.3 ⁽¹⁾
Zhang Furong	Executive Director, Vice President	68.0	57.9	12.2		138.1
Niu Ximing	Executive Director, Vice President	68.0	57.9	12.2		138.1
Huan Huiwu ⁽²⁾	Non-executive Director					
Gao Jianhong ⁽²⁾	Non-executive Director					
Li Chunxiang ⁽²⁾	Non-executive Director					
Li Jun ⁽²⁾	Non-executive Director					
Li Xiwen ⁽²⁾	Non-executive Director					
Wei Fusheng ⁽²⁾	Non-executive Director					
Christopher A. Cole ⁽²⁾	Non-executive Director					
Leung Kam Chung, Antony	Independent Non-executive Director				49.0	49.0
Qian Yingyi	Independent Non-executive Director				47.0	47.0
Xu Shanda	Independent Non-executive Director				20.5	20.5 ⁽³⁾
Wong Kwong Shing, Frank ⁽⁴⁾	Independent Non-executive Director					
Wang Chixi	Shareholder Supervisor	50.0	39.0	11.0		100.0
Wang Daocheng	External Supervisor				15.0	15.0 ⁽³⁾
Miao Gengshu	External Supervisor				14.0	14.0 ⁽³⁾
Zhang Wei	Employee Supervisor				5.0	5.0 ⁽⁵⁾
Wang Lili	Vice President	68.0	57.3	12.2		137.5
Li Xiaopeng	Vice President	68.0	57.9	12.2		138.1
Liu Lixian	Secretary of Party Discipline Committee	68.0	57.4	12.2		137.6
Yi Huiman	Vice President	66.0	57.3	11.7		135.0 ⁽⁶⁾
Wei Guoxiong	Chief Risk Officer	64.0	56.2	11.2		131.4
Gu Shu	Board Secretary	50.8	57.9	11.2		119.9 ⁽⁷⁾

- Note:*
- (1) Mr. Zhao Lin has served as Chairman of the Board of Supervisors of the Bank since June 2008. Such amount represents the aggregate remuneration for the period from June to December 2008 during which he served in the Bank.
 - (2) Mr. Huan Huiwu, Mr. Gao Jianhong, Ms. Li Chunxiang, Mr. Li Jun, Mr. Li Xiwen, Mr. Wei Fusheng and Mr. Christopher A. Cole received remuneration from the nominating party.
 - (3) Mr. Xu Shanda, Mr. Wang Daocheng and Mr. Miao Gengshu, would no longer receive any remuneration from the Bank since 1 July 2008 pursuant to the requirements of relevant government authorities.
 - (4) Mr. Wong Kwong Shing, Frank has served as Independent Non-executive Director of the Bank since January 2009, and did not receive any remuneration from the Bank in 2008.
 - (5) Such amount represents the pre-tax remuneration paid to Mr. Zhang Wei for serving as Employee Supervisor of the Bank.
 - (6) Mr. Yi Huiman has served as Vice President of the Bank since July 2008. Such amount represents the aggregate remuneration to Mr. Yi for serving as a member of the senior management of the Bank and President of the Beijing Municipal Branch of the Bank from January to June 2008 and as Vice President of the Bank from July to December 2008.
 - (7) Mr. Gu Shu has served as Board Secretary of the Bank since June 2008. Such amount represents the aggregate remuneration to Mr. Gu for serving as General Manager of the Finance and Accounting Department of the Bank from January to June 2008 and as Board Secretary of the Bank from July to December 2008.

6.4 Remuneration Policy for Directors, Supervisors and Senior Management

The Bank has clearly documented the remuneration policy for Directors, Supervisors and Senior Management, and has continuously improved the performance assessment mechanism and incentive and restriction mechanism. In accordance with the principle of combining incentives with restrictions, corporate value with shareholders' value and individual performance with team contribution, the Bank adopted a system composed of balanced scorecard-based indicators for the management and duties-based indicators for individuals. The Bank has contributed to statutory retirement programs sponsored by Chinese governmental organizations at different levels for employees including Executive Directors, Supervisors (except External Supervisors) and Senior Management. Upon obtaining all applicable approvals, the Bank will implement a long-term incentive program. As at 31 December 2008, the Bank had not granted any share appreciation rights to any Director, Supervisor, member of the Senior Management, or other key personnel designated by the Board of Directors.

7. Discussion and Analysis

7.1 Income Statement Analysis

In 2008, in response to the complicated and changing domestic and global economic environment, the Bank has been continuously undergoing business transformation, accelerating business innovation, optimizing revenue structure, and tightening cost control. As a result, the Bank effectively mitigated the adverse influence from the global financial crisis and the economic downturn of China, and achieved a sound growth of earnings in 2008. Profit after tax reached RMB111,226 million, an increase of RMB28,972 million or 35.2% over the previous year. Operating income registered a growth of RMB52,767 million or 20.5%, of which net interest income increased by RMB38,572 million or 17.2%; and non-interest income surged by RMB14,195 million or 43.1%. Operating expenses increased by RMB6,675 million or 6.4%, and the allowance for impairment losses increased by RMB18,056 million or 48.3%. The adoption of the new corporate income tax rate also contributed to the growth of the Bank's profit after tax.

Net Interest Income

Net interest income is the major component of the Bank's operating income. In 2008, the Bank's net interest income increased by 17.2% to RMB263,037 million, accounting for 84.8% of the operating income. Interest income amounted to RMB440,574 million, of which interest income on loans and advances to customers, interest income on investment in securities and other interest income accounted for 69.7%, 23.3% and 7.0%, respectively.

The table below sets out the average balance of interest-earning assets and interest-bearing liabilities, interest income and expense, as well as average yield and average cost, respectively.

Item	<i>In RMB millions, except for percentages</i>					
	Average balance	2008 Interest income/expense	Average yield/cost (%)	Average balance	2007 Interest income/expense	Average yield/cost (%)
Assets						
Loans and advances to customers	4,341,052	307,103	7.07	3,893,311	237,880	6.11
Investment in securities	3,072,444	102,688	3.34	3,001,210	91,724	3.06
Investment in securities not related to restructuring	2,066,299	80,222	3.88	1,958,873	68,175	3.48
Investment in securities related to restructuring ⁽²⁾	1,006,145	22,466	2.23	1,042,337	23,549	2.26
Due from central banks	1,254,668	22,634	1.80	827,014	14,805	1.79
Due from banks and other financial institutions ⁽³⁾	252,565	8,149	3.23	307,887	12,878	4.18
Total interest-earning assets	8,920,729	440,574	4.94	8,029,422	357,287	4.45
Non-interest-earning assets	392,892			316,639		
Allowance for impairment losses	(130,132)			(110,063)		
Total assets	9,183,489			8,235,998		
Liabilities						
Deposits	7,380,312	160,253	2.17	6,559,635	116,336	1.77
Due to banks and other financial institutions ⁽³⁾	897,473	16,043	1.79	886,071	15,305	1.73
Subordinated bonds	35,000	1,241	3.55	35,000	1,181	3.37
Total interest-bearing liabilities	8,312,785	177,537	2.14	7,480,706	132,822	1.78
Non-interest-bearing liabilities	316,547			277,293		
Total liabilities	8,629,332			7,757,999		
Net interest income		263,037			224,465	
Net interest spread			2.80			2.67
Net interest margin			2.95			2.80

- Notes:* (1) The average balances of interest-earning assets and interest-bearing liabilities represent their daily average balances. The average balances of non-interest-earning assets, non-interest-bearing liabilities and the allowance for impairment losses represent the average of the balances at the beginning of the year and that at the end of the year.
- (2) Investment in securities related to restructuring includes Huarong bonds, special government bonds, MOF receivables and special PBOC bills.
- (3) Due from banks and other financial institutions includes the amount of reverse repurchase agreements; and due to banks and other financial institutions includes the amount of repurchase agreements.

Net Interest Spread and Net Interest Margin

In 2008, return on assets has been further improved as a result of the Bank's efforts in seizing market opportunities, proactively adjusting and optimizing the structure of assets, improving interest rate management and enhancing the bargaining power in loan transactions in reaction to changes in the domestic and global economic environment. In addition, the Bank achieved further improvement in the profitability of its assets and liabilities operations by following the trend of capital markets in promoting deposits, and adjusted deposit mix by guiding customers to reasonably adjust their portfolio of financial assets. As a result, the net interest spread and net interest margin reached 2.80% and 2.95%, respectively, representing an increase of 13 and 15 basis points as compared to the previous year.

As a result of the improvement of loan re-pricing capability, interest rate management and bargaining power and the optimization of loan quality and structure, the average yield of loans to customers increased from 6.11% in 2007 to 7.07% in 2008. In view of the movement of the yield curve of Renminbi bond markets, the Bank further optimized the investment portfolio and increased the average yield of investment in securities from 3.06% in 2007 to 3.34% in 2008. As a result of the above, the average yield of interest-earning assets increased by 49 basis points to 4.94%. Due to the cumulative effect of interest rate rises and the increase of deposits, in particular the time deposits, caused by capital market volatility, the average cost of deposits increased from 1.77% in 2007 to 2.17% in 2008. The cost of liabilities was further increased due to the decrease in amount due to banks and other financial institutions with lower average cost. As a result, the average cost of the interest-bearing liabilities went up by 36 basis points to 2.14%. As the growth in average yield on interest-earning assets is slightly higher than the growth in average cost of interest-bearing liabilities, the net interest spread and net interest margin further increased.

The table below sets out the changes in the yield of interest-earning assets, cost of interest-bearing liabilities, net interest spread and net interest margin.

Item	2008	2007	Percentages
			Increase/ (decrease) (basis point)
Yield of interest-earning assets	4.94	4.45	49
Cost of interest-bearing liabilities	2.14	1.78	36
Net interest spread	2.80	2.67	13
Net interest margin	2.95	2.80	15

Interest Income

Interest income amounted to RMB440,574 million, representing an increase of RMB83,287 million or 23.3% as compared to the previous year. The aggregate growth of interest income on loans and advances to customers and investment in securities accounted for 96.3% of the total increase in interest income. The increase in interest income was principally attributable to the rise in the average yield and average balance of loans and advances to customers as well as the increase in the average yield of investment in securities not related to restructuring.

Interest Income on Loans and Advances to Customers

Interest income on loans and advances to customers constituted the largest component of the Bank's interest income. In 2008, the interest income on loans and advances to customers was RMB307,103 million, representing an increase of RMB69,223 million or 29.1%. The increase in interest income is mainly attributable to the rise of average yield of loans and advances to customers from 6.11% in 2007 to 7.07% and the increase of RMB447,741 million in the average balance. The factors causing the increasing average yield principally include: (1) under the cumulative effect of six times benchmark interest rate hike for loans as announced by the People's Bank of China ("PBOC"), the higher interest rate was applied to the loans granted by the Bank in the first three quarters of 2008. As a result, the benchmark interest rate of 1-year RMB loans was 7.47% at the beginning of 2008, representing an increase of 135 basis points from the beginning of 2007; (2) loan re-pricing. The increased interest rates announced by PBOC in 2007 became effective for certain loans since 1 January 2008; (3) the continuous improvement in loan quality; and (4) the improvement of interest rate management and bargaining power, which resulted in improvement in the pricing of loan interest rate.

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

In RMB millions, except for percentages

Item	2008			2007		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	3,135,615	226,646	7.23	2,743,088	174,441	6.36
Discounted bills	230,444	15,529	6.74	354,253	14,343	4.05
Personal loans	796,763	56,776	7.13	664,134	41,869	6.30
Overseas and others	178,230	8,152	4.57	131,836	7,227	5.48
Total loans and advances to customers	4,341,052	307,103	7.07	3,893,311	237,880	6.11

Interest Income on Investment in Securities

Interest income on investment in securities represents the second largest component of the Bank's interest income. In 2008, interest income on investment in securities was RMB102,688 million, representing an increase of RMB10,964 million or 12.0%. Interest income on investment in securities not related to restructuring increased by RMB12,047 million, as a result of the increase from 3.48% of 2007 to 3.88% in the average yield and the increase of RMB107,426 million in the average balance. Improvement of the average yield of investment in securities not related to restructuring was mainly because: (1) the Bank increased the investment in debt securities during the period when the yield of RMB debt securities was high, which led to a significant growth on return from new investments; (2) in response to changes in the domestic and global macro economic environment and financial markets, the Bank adjusted the investment portfolio on a timely basis, increased the investment in medium to long-term debt securities denominated in RMB and reduced the investment in debt securities denominated in foreign currencies, thereby improving the currency mix and maturity structure of investment portfolios. The interest income on investment in securities related to restructuring decreased by RMB1,083 million or 4.6%, which was mainly attributable to the decrease in average balance resulted from the MOF's repayment of RMB51,208 million related to MOF receivables during the reporting period.

Interest Income on Due from Central Banks

Due from central banks mainly included the mandatory reserve deposits with central banks and excess reserve deposits. In 2008, the interest income on due from central banks was RMB22,634 million, representing an increase of RMB7,829 million or 52.9%. The increase in interest income was caused by the increase of RMB427,654 million in the average balance and the increase in the average yield from 1.79% in 2007 to 1.80%. The increase in average balance was attributable to the increase in the customer deposit balance and the rises in mandatory reserve deposit ratio by PBOC in the first half of 2008. The increase in average yield was mainly due to the continuous improvement of liquidity management and the decrease in the proportion of low-interest-rate excessive reserve deposits in the amounts of due from central banks.

Interest Income on Due from Banks and Other Financial Institutions

Interest income on due from banks and other financial institutions was RMB8,149 million, representing a decrease by RMB4,729 million or 36.7%. The decrease in interest income was mainly caused by the decrease in the average yield from 4.18% to 3.23% and the decrease of RMB55,322 million in the average balance. The decrease in the average yield was principally due to the high proportion of the amount due from banks and other financial institutions denominated in foreign currency, which had a lower yield due to the decrease of LIBOR and HIBOR. The Bank capitalized on the high interest rate on the inter-bank money market in the first three quarters and enhanced the operation of reverse repurchase agreements, which partially offset the decrease in the average yield of due from banks and other financial institutions.

Interest Expense

Interest expense reached RMB177,537 million, representing an increase of RMB44,715 million or 33.7%. The increase in interest expense was mainly due to: (1) the cumulative effect of interest rate rises in 2007 and higher proportion of time deposits in the total amount of due to customers, which increased the average cost of interest-bearing liabilities from 1.78% in 2007 to 2.14%; and (2) the average balance of interest-bearing liabilities increased from RMB7,480,706 million in 2007 to RMB8,312,785 million, representing an increase of RMB832,079 million or 11.1%.

Interest Expense on Deposits

Deposits have been a major source of funding of the Bank. In 2008, interest expense on deposits amounted to RMB160,253 million, representing an increase of RMB43,917 million or 37.8%, and accounted for 90.3% of the total interest expense. The increase in interest expense on deposits was mainly due to the increase in the average cost from 1.77% in 2007 to 2.17% and the increase of RMB820,677 million in the average balance. The average deposit balance and the rise in the average cost was mainly attributed to: (1) the cumulative effect of six times benchmark interest rate hike for time deposits announced by PBOC during 2007, which increased the benchmark interest rate of 1-year RMB deposits to 4.14% from the beginning of 2008 till 8 October 2008, representing an increase of 162 basis points from the beginning of 2007; and (2) the adjustment of capital markets, high interest rate and the abolishment of interest income tax on savings deposits led to an upsurge of personal deposits, and increased the proportion of time deposits in the total customer deposits. In 2008, the Bank actively adjusted the maturity structure of deposits, shortened the average term of time deposits and increased the proportion of time deposits with a term of less than one year, which partially offset the rising cost incurred on deposits.

ANALYSIS OF AVERAGE DEPOSIT COST BY PRODUCTS

In RMB millions, except for percentages

Item	2008		2007			
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Corporate deposits						
Time deposits	1,227,435	41,938	3.42	979,717	25,445	2.60
Demand deposits ⁽¹⁾	<u>2,439,832</u>	<u>24,721</u>	1.01	<u>2,192,679</u>	<u>21,607</u>	0.99
Sub-total	<u>3,667,267</u>	<u>66,659</u>	1.82	<u>3,172,396</u>	<u>47,052</u>	1.48
Personal deposits						
Time deposits	2,276,616	82,313	3.62	2,131,112	54,892	2.58
Demand deposits	<u>1,281,000</u>	<u>7,590</u>	0.59	<u>1,136,852</u>	<u>9,150</u>	0.80
Sub-total	<u>3,557,616</u>	<u>89,903</u>	2.53	<u>3,267,964</u>	<u>64,042</u>	1.96
Overseas deposits	<u>155,429</u>	<u>3,691</u>	2.37	<u>119,275</u>	<u>5,242</u>	4.39
Total deposits	<u>7,380,312</u>	<u>160,253</u>	2.17	<u>6,559,635</u>	<u>116,336</u>	1.77

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

Interest Expense on Due to Banks and Other Financial Institutions

The interest expense on due to banks and other financial institutions was RMB16,043 million, representing an increase of RMB738 million or 4.8%. The increase in interest expense was due to the increase in average cost from 1.73% in 2007 to 1.79% and the increase in average balance of RMB11,402 million. The rise in average cost was mainly due to the adjustment of capital markets in 2008, which decreased the proportion of due to bank and other financial institutions with relatively low average cost. The decrease of average LIBOR in 2008 dragged down the average interest cost incurred on the repurchase agreements, and partially offset the rise in the average cost of due to banks and other financial institutions.

Interest Expense on Subordinated Bonds

The interest expense on subordinated bonds was RMB1,241 million, representing an increase of RMB60 million. The average cost increased from 3.37% in 2007 to 3.55%, which was mainly due to the increase in the coupon rate for the floating-rate subordinated bonds issued in 2005 as compared to the previous year.

Non-interest Income

In 2008, non-interest income reached RMB47,158 million, representing an increase of RMB14,195 million or 43.1%, and accounted for 15.2% of total operating income, an increase of 2.4 percentage points, which implying a continuous improvement in the revenue structure. Net fee and commission income posted a slower growth of 14.7%. Other non-interest income turned around from a loss position in the previous year and reached RMB3,156 million.

Net fee and commission income was RMB44,002 million, representing an increase of 14.7% and accounted for 14.19% of total operating income. The Bank implemented a strategy of diversifying the revenue streams, by expediting the innovation of services and products and developing channels, and diligently exploiting the intermediary business market. In 2008, despite that the income from funds agency business decreased significantly as compared to the previous year, as affected by the adjustment of capital markets, the Bank maintained a relatively rapid growth in business lines such as settlement, clearing and cash management, investment banking, corporate wealth management, asset fiduciary, guarantee and commitment etc.. During the reporting period, the Bank realized RMB3,846 million of income from the entrusted wealth management services, and RMB7,692 million from various agency services.

COMPOSITION OF NET FEE AND COMMISSION INCOME

In RMB millions, except for percentages

Item	2008	2007	Increase/ (decrease)	Growth rate (%)
Settlement, clearing business and cash management	13,002	9,215	3,787	41.1
Personal wealth management and private banking services	10,327	15,994	(5,667)	-35.4
Investment banking business	8,028	4,505	3,523	78.2
Bank card business	7,199	5,372	1,827	34.0
Corporate wealth management services	2,788	1,949	839	43.0
Asset fiduciary business	2,066	1,465	601	41.0
Guarantee and commitment business	1,849	563	1,286	228.4
Trust and agency services	756	584	172	29.5
Others	696	368	328	89.1
Fee and commission income	46,711	40,015	6,696	16.7
Less: Fee and commission expense	2,709	1,656	1,053	63.6
Net fee and commission income	44,002	38,359	5,643	14.7

The income from settlement, clearing business and cash management business was RMB13,002 million, representing an increase of RMB3,787 million or 41.1%. The increase was mainly due to the increase of income from RMB settlement, international settlement and corporate account management businesses.

The income from investment banking business increased by RMB3,523 million or 78.2% to RMB8,028 million, mainly due to the continuous increase of income from businesses such as investment and financing advisory, regular financial advisory and corporate information service business, as well as the rapid growth of underwriting of corporate bonds such as short-term finance bills.

The income from bank card business increased by RMB1,827 million or 34.0% to RMB7,199 million, mainly due to the rapid growth in the number of new cards issued and transaction volume which drove the growth of commission income for bank card settlement, service charge for instalment payment and the annual fee income charged for bank cards.

The income from corporate wealth management services amounted to RMB2,788 million, representing an increase of RMB839 million or 43.0%. The increase was mainly due to the rapid growth in the sales volume of corporate wealth management products, which resulted in an increase of commission income, management fee and operating income from corporate wealth management products.

The income from asset fiduciary business amounted to RMB2,066 million, representing an increase of RMB601 million or 41.0%, which was mainly due to the increase in the income from custody services of securities investment funds, the continuous optimization of assets structure and the steady expansion of assets in custody including the fund on settlement accounts, enterprise annuity and social security funds.

The income from guarantee and commitment business was RMB1,849 million, representing an increase of RMB1,286 million or 228.4%, which was mainly resulted from the growth of loan commitment and non-financing guarantee businesses.

The income from trust and agency business was RMB756 million, representing an increase of RMB172 million or 29.5%, which was mainly due to the increase of income from entrusted loan business.

The income from personal wealth management and private banking business was RMB10,327 million, representing a decrease of RMB5,667 million or 35.4%, which was mainly due to the sharp decline of income from personal fund agency services caused by the downturn of capital markets. Excluding the influence from the above factor, the income from personal wealth management and private banking business recorded an increase of RMB3,134 million or 89.0%, owing to the significant increase of income from personal wealth management products and insurance products agency services.

OTHER NON-INTEREST RELATED INCOME/(EXPENSE)

In RMB millions, except for percentages

Item	2008	2007	Increase/ (decrease)	Growth rate (%)
Net trading income	1,883	1,351	532	39.4
Net loss on financial assets and liabilities designated at fair value through profit or loss	(699)	(1,415)	716	N/A
Net gain/(loss) on financial investments	(367)	499	(866)	-173.5
Other operating income/(expense), net	2,339	(5,831)	8,170	N/A
Total	<u>3,156</u>	<u>(5,396)</u>	<u>8,552</u>	N/A

Other non-interest income was RMB3,156 million, an increase of RMB8,552 million, which was mainly due to the sharp decrease of net loss from foreign exchange and foreign exchange products of other operating income/(expense), net. The net loss from foreign exchange and foreign exchange products was RMB851 million, a decrease of RMB8,606 million, which was mainly because the Bank proactively adjusted the currency structure of assets and liabilities, and reduced the net foreign exchange exposure (long position) by USD15,734 million to USD851 million.

Operating Expenses

The operating expenses were RMB111,335 million, representing an increase of RMB6,675 million or 6.4% from the previous year. The cost-to-income ratio was 29.84%, a decrease of 5.18 percentage points.

Staff costs amounted to RMB53,252 million, a decrease of RMB1,647 million or 3.0% as compared to last year. The Bank implemented stricter cost management and control, improved the allocation of expenses and resources. Other administrative expenses amounted to RMB17,243 million, representing an increase of 16.4%.

Allowance for Impairment Losses

Allowance for impairment losses increased by RMB18,056 million or 48.3% to RMB55,462 million, of which, the allowance for impairment loss on loans and advances to customers increased by RMB3,451 million to RMB36,512 million, mainly due to the growth of outstanding loans and the impact of macro-economic environment on credit risk. The allowance for impairment losses on other assets increased by RMB14,605 million to RMB18,950 million, which was mainly caused by the increase of allowance for impairment loss on foreign currency-denominated debt securities.

Income Tax Expense

The Bank adopted the new corporate income tax rate in 2008. As a result, the Bank's statutory income tax rate decreased from 33% to 25%. The income tax expense increased by RMB1,026 million or 3.1% from last year to RMB34,150 million. The effective tax rate decreased by 5.2 percentage points to 23.5%. The effective tax rate was lower than the statutory tax rate mainly because the interest income from investment in PRC government bonds is not taxable under the tax law.

7.2 Segment Information

The Bank's principal business segments are corporate banking, personal banking and treasury operations. The Bank utilizes the Performance Value Management System (PVMS) to evaluate the performance of each business segment.

SUMMARY BUSINESS SEGMENT INFORMATION

Item	<i>In RMB millions, except for percentages</i>			
	2008		2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate banking	153,068	49.3	127,636	49.6
Personal banking	106,301	34.3	86,174	33.5
Treasury operations	49,927	16.1	41,432	16.1
Others	899	0.3	2,186	0.8
Total operating income	310,195	100.0	257,428	100.0

The operating income from corporate banking was RMB153,068 million, an increase of 19.9%; the operating income from personal banking was RMB106,301 million, an increase of 23.4%; and the operating income from treasury operation was RMB49,927 million, an increase of 20.5%.

SUMMARY GEOGRAPHICAL SEGMENT INFORMATION

In RMB millions, except for percentages

Item	2008		2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	28,742	9.3	29,285	11.4
Yangtze River Delta	74,394	24.0	59,181	23.0
Pearl River Delta	46,079	14.8	36,385	14.1
Bohai Rim	57,558	18.5	46,288	18.0
Central China	37,871	12.2	30,535	11.9
Northeast China	14,478	4.7	12,924	5.0
Western China	44,360	14.3	36,790	14.3
Overseas and others	6,713	2.2	6,040	2.3
Total operating income	310,195	100.0	257,428	100.0

The total operating income from Yangtze River Delta, Pearl River Delta and Bohai Rim was RMB178,031 million in aggregate, accounting for 57.3% of the total operating income and representing an increase of 25.7%, 26.6% and 24.3% compared to last year, respectively. The operating income from Central China and Western China was RMB37,871 million and RMB44,360 million, respectively, representing an increase of 24.0% and 20.6% year on year, respectively.

7.3 Balance Sheet Analysis

Assets Deployment

At the end of 2008, the Bank recorded total assets of RMB9,757,146 million, an increase of RMB1,073,434 million or 12.4% as compared to the end of 2007. Among the assets, the total amount of loans and advances to customers (collectively referred to as “loans”) increased by RMB498,765 million or 12.2%, net investment in securities declined by RMB59,018 million or 1.9%, and cash and balance with central banks increased by RMB550,678 million or 48.2%. With respect to the asset structure, net loans accounted for 45.5% of the total assets, decreased by 0.1 percentage point from the end of 2007, the net investment in securities accounted for 31.2%, decreased by 4.6 percentage points, and the cash and balance with central banks accounted for 17.4%, increased by 4.3 percentage points.

ASSETS DEPLOYMENT

In RMB millions, except for percentages

Item	At 31 December 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Total loans and advances to customers	4,571,994	—	4,073,229	—
Less: Allowance for impairment losses on loans	135,983	—	115,687	—
Loans and advances to customers, net	4,436,011	45.5	3,957,542	45.6
Investment in securities, net	3,048,310	31.2	3,107,328	35.8
Of which: Receivables	1,162,769	11.9	1,211,767	14.0
Cash and balance with central banks	1,693,024	17.4	1,142,346	13.1
Due from banks and other financial institutions, net	168,363	1.7	199,758	2.3
Reverse repurchase agreements	163,493	1.7	75,880	0.9
Others	247,945	2.5	200,858	2.3
Total assets	<u>9,757,146</u>	<u>100.0</u>	<u>8,683,712</u>	<u>100.0</u>

Loans

In 2008, the Bank actively responded to the changes in macro-economic and financial situations in domestic and international markets, reasonably controlled the aggregate volume and new issuance of credits, improved credit assets structure, and supported the financing needs of key industries. At the end of 2008, the loans amounted to RMB4,571,994 million, representing an increase of RMB498,765 million or 12.2% as compared to the end of 2007, of which, RMB loans of domestic operations increased by RMB536,765 million or 14.3%, which is RMB171,765 million more than the RMB365.0 billion budgeted growth set in the beginning of 2008 and RMB190,065 million more than that in last year. The growth in RMB loans of domestic branches accounted for 10.9% of the total growth in RMB loans of all Chinese financial institutions, which contributed the most to the growth of all Chinese financial institutions. It was also the year which the Bank granted the highest amount of loan disbursements.

DISTRIBUTION OF LOANS BY BUSINESS LINE

In RMB millions, except for percentages

Item	At 31 December 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Loans of domestic operations	4,387,759	96.0	3,919,209	96.2
Corporate loans	3,232,102	70.7	2,914,993	71.6
Discounted bills	326,315	7.1	252,103	6.2
Personal loans	829,342	18.2	752,113	18.4
Overseas and others	184,235	4.0	154,020	3.8
Total	4,571,994	100.0	4,073,229	100.0

The balance of corporate loans increased by RMB317,109 million or 10.9%. In terms of maturity, short-term corporate loans increased by RMB6,452 million or 0.6% and medium to long-term loans increased by RMB310,657 million or 17.4%. In terms of product type, project loans increased by RMB267,445 million or 18.9%, which is mainly due to the increase in high-quality medium to long-term project loans to key customers in fundamental and infrastructure industries; property development loans increased by RMB42,563 million or 14.2%, a decrease of RMB31,720 million as compared to last year's increment. The increase was mainly because the Bank appropriately extended the housing development loans to high-quality customers with strong financial background, high qualification and good credit standing. The working capital loans increased by RMB7,101 million or 0.6%, of which the volume of trade finance grew by RMB35,152 million or 40.4%. In 2008, the Bank further adjusted the composition of general working capital loans, expanded the trade finance business, particularly increased the proportion of trade finance in incremental loans to small enterprises, thereby accomplishing a further improvement of working capital loans structure.

The balance of discounted bills increased by RMB74,212 million or 29.4%, which was mainly due to the fact that the Bank bought large volume of bills which are of good liquidity and high quality during the fourth quarter of 2008, and used them as an investment to balance the growth of credit assets as a response to the changes in macro-economic control policies.

DISTRIBUTION OF CORPORATE LOANS BY INDUSTRY

In RMB millions, except for percentages

Item	At 31 December 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Manufacturing	758,764	23.5	738,121	25.3
Chemicals	124,981	3.9	121,243	4.1
Machinery	102,747	3.2	95,709	3.3
Iron and steel	87,686	2.7	84,357	2.9
Metal processing	79,876	2.5	77,808	2.7
Textiles and apparels	78,072	2.4	79,112	2.7
Automobile	46,888	1.4	42,496	1.4
Petroleum processing	41,709	1.3	35,761	1.2
Electronics	40,831	1.3	43,181	1.5
Cement	33,591	1.0	30,963	1.1
Others	122,383	3.8	127,491	4.4
Transportation and logistics	690,809	21.4	602,103	20.7
Power generation and supply	501,411	15.5	404,873	13.9
Property development	343,895	10.6	303,984	10.4
Water, environment and public utility management	275,469	8.5	230,156	7.9
Retail, wholesale and catering	188,831	5.8	186,988	6.4
Leasing and commercial services	188,120	5.8	159,877	5.5
Science, education, culture and sanitation	70,148	2.2	69,742	2.4
Construction	61,006	1.9	52,639	1.8
Others	153,649	4.8	166,510	5.7
Total	3,232,102	100.0	2,914,993	100.0

In 2008, the Bank further strengthened the guidance over the industrial credit policies in line with the state macro-economic control and industrial policies, proactively provided support to fundamental industries including energy and transportation and infrastructure constructions, steadily developed property loans, and selectively facilitated the business expansion of top-tier enterprises in industries such as modern manufacturing, logistics and emerging services and cultural industry. The Bank also implemented the “green credit” policy, gave support to innovation, energy conservation and environmental protection fields, and strictly controlled the growth of loans to high energy consumption, high pollution and overcapacity industries, thus improving the Bank’s credit structure by industry.

With respect to the incremental structure, loans to the four industries of power generation and supply, transportation and logistics, water, environment and public utility management and property development grew most considerably. The incremental loans to these four industries accounted for 85.3% of the total incremental corporate loans. The loans to power generation and supply industry increased by RMB96,538 million or 23.8% mainly due to the expansion of

loans to customers with good earnings forecast which are encouraged by the Bank's industrial credit policy. The loans to transportation and logistics industry increased by RMB88,706 million or 14.7%, mainly because of the increase of loans to the highways and transportation sectors supported by the Bank's credit policies. The loans to the water, environment and public utility management industry increased by RMB45,313 million or 19.7% mainly due to increase of loans granted to the infrastructure industry that are encouraged by the state macro-control policy. The property development loans grew by RMB39,911 million or 13.1%, of which most loans were granted to high-quality customers with strong financial background, high qualification and good credit standing. The balance of loans to the electronics, textiles and apparels industries decreased mainly because the Bank enhanced the risk control and reasonably reduced the loans to these industries which were adversely affected by the deteriorating external demands and poor export situation.

In terms of the structure of our loan balance, the loans are mainly concentrated on industries of manufacturing, transportation and logistics, power generation and supply, and property development. Loans to these four industries accounted for 71.0% of the total outstanding corporate loans.

DISTRIBUTION OF LOANS BY COLLATERALS

In RMB millions, except for percentages

Item	At 31 December 2008		At 31 December 2007	
	Amount	% of total	Amount	% of total
Loans secured by mortgages	1,688,435	36.9	1,519,748	37.3
Including: Personal housing loans ⁽¹⁾	597,374	13.1	536,331	13.2
Pledged loans	676,129	14.8	575,598	14.1
Including: Discounted bills ⁽¹⁾	326,315	7.1	252,103	6.2
Guaranteed loans	866,129	18.9	836,476	20.6
Unsecured loans	1,341,301	29.4	1,141,407	28.0
Total	<u>4,571,994</u>	<u>100.0</u>	<u>4,073,229</u>	<u>100.0</u>

Note: (1) Data of domestic branches.

At the end of 2008, the Bank's unsecured loans amounted to RMB1,341,301 million, representing an increase of RMB199,894 million or 17.5% compared with the prior year, as a result of the increase in the Bank's loans to customers with higher credit rating. Loans secured by mortgages amounted to RMB1,688,435 million, representing an increase of RMB168,687 million or 11.1%, which remained as the largest component of the total loans.

OVERDUE LOANS

In RMB millions, except for percentages

Overdue for periods of:	At 31 December 2008		At 31 December 2007	
	Amount	% of total	Amount	% of total
3–6 months	9,231	0.2	4,631	0.1
6–12 months	8,487	0.2	10,150	0.3
Over 12 months	70,162	1.5	86,771	2.1
Total	87,880	1.9	101,552	2.5

Note: Loans and advances to customers are deemed overdue when either the principal or interest is not repaid by the due date. For loans and advances to customers that are repaid by instalment, the full amount of loans will be deemed overdue if any of the instalments is not repaid by the due date.

Renegotiated Loans

At the end of 2008, renegotiated loans and advances amounted to RMB25,246 million, representing a decrease of RMB13,135 million or 34.2% when compared to the end of the prior year, of which renegotiated loans and advances to customers overdue for over three months amounted to RMB18,984 million, representing a decrease of RMB9,781 million.

Loan Concentration

At the end of 2008, the total amount of loans granted to the single largest customer accounted for 2.9% of the Bank's net capital and the total amount of loans granted to the top ten customers accounted for 20.4% of the Bank's net capital, both in compliance with the regulatory requirements. The loans to the top ten customers totaled RMB126,458 million, accounting for 2.8% of the total loans.

DISTRIBUTION OF LOANS BY FIVE-TIER CLASSIFICATION

In RMB millions, except for percentages

Item	At 31 December 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Pass	4,229,609	92.51	3,728,576	91.54
Special mention	237,903	5.20	232,879	5.72
Non-performing loans	104,482	2.29	111,774	2.74
Sub-standard	37,694	0.83	38,149	0.94
Doubtful	55,641	1.22	62,042	1.52
Loss	11,147	0.24	11,583	0.28
Total	4,571,994	100.00	4,073,229	100.00

The Bank's loan quality continued to improve. At the end of 2008, in accordance with the five-tier classification, the pass loans amounted to RMB4,229,609 million and accounted for 92.51% of the total loans, representing an increase of RMB501,033 million and 0.97 percentage point as compared to the previous year, respectively. Special mention loans amounted to RMB237,903 million and accounted for 5.20% of the total loans, representing an increase of RMB5,024 million and decrease of 0.52 percentage point, respectively, which was mainly resulted from the increase of special mention corporate loans. Special mention personal loans decreased because the Bank enhanced the collection of loans in delinquency. Non-performing loans were RMB104,482 million, representing a decrease of RMB7,292 million, and the NPL ratio was 2.29%, representing a decrease of 0.45 percentage point. The Bank achieved the objective of controlling NPL ratio to less than 2.5% and maintained continuous decline in the balance and ratio of NPLs. This is mainly because the Bank combined the measures for cash collection, bad debt write-off, interest exemption for loan repayment, repossession of assets and loan renegotiation so as to further enhance the collection and disposal of NPLs while strengthening the monitoring of and the exit from loans with potential risks.

NPLs BY BUSINESS LINE

In RMB millions, except for percentages

Item	At 31 December 2008		At 31 December 2007	
	Amount	NPL ratio (%)	Amount	NPL ratio (%)
Corporate loans	93,747	2.90	102,198	3.51
Discounted bills	—	—	—	—
Personal loans	9,593	1.16	8,610	1.14
Overseas and others	1,142	0.62	966	0.63
Total	104,482	2.29	111,774	2.74

At the end of 2008, the balance of non-performing corporate loans was RMB93,747 million, representing a decrease of RMB8,451 million from the end of last year and the NPL ratio was 2.90%, representing a decrease of 0.61 percentage point. The balance of non-performing personal loans was RMB9,593 million, representing an increase of RMB983 million, and the NPL ratio was 1.16%, mainly because certain borrowers failed to repay loans in time as a result of the economic downturn and natural disasters.

DISTRIBUTION OF NON-PERFORMING CORPORATE LOANS BY INDUSTRY

In RMB millions, except for percentages

Item	At 31 December 2008		At 31 December 2007	
	Amount	NPL ratio (%)	Amount	NPL ratio (%)
Manufacturing	44,974	5.93	55,766	7.56
Chemicals	8,126	6.50	9,940	8.20
Machinery	6,285	6.12	8,411	8.79
Iron and steel	975	1.11	1,601	1.90
Metal processing	2,720	3.41	3,377	4.34
Textiles and apparels	7,343	9.41	6,864	8.68
Automobile	1,301	2.77	1,837	4.32
Petroleum processing	721	1.73	1,031	2.88
Electronics	3,201	7.84	3,659	8.47
Cement	3,497	10.41	4,467	14.43
Others	10,805	8.83	14,579	11.44
Transportation and logistics	9,480	1.37	6,320	1.05
Power generation and supply	7,672	1.53	5,344	1.32
Property development	7,600	2.21	8,559	2.82
Water, environment and public utility management	1,781	0.65	1,118	0.49
Retail, wholesale and catering	13,720	7.27	15,949	8.53
Leasing and commercial services	1,887	1.00	1,349	0.84
Science, education, culture and sanitation	1,963	2.80	1,876	2.69
Construction	1,574	2.58	1,351	2.57
Others	3,096	2.01	4,566	2.74
Total	93,747	2.90	102,198	3.51

As at the end of 2008, the NPLs in manufacturing decreased by RMB10,792 million with the NPL ratio decreasing 1.63 percentage points from the end of last year; the NPLs in retail, wholesale and catering decreased by RMB2,229 million with the NPL ratio decreasing 1.26 percentage points; the NPLs in the property development industry decreased by RMB959 million with the NPL ratio decreasing 0.61 percentage point. The NPLs in transportation and logistics increased by RMB3,160 million with the NPL ratio increasing 0.32 percentage point mainly because of the incremental NPLs in some highway projects; the NPLs in power generation and supply increased by RMB2,328 million with the NPL ratio climbing 0.21 percentage point, which is mainly because of the earthquake and operating losses of the power generation industry as a result of rising costs of raw materials; the NPLs in water, environment and public utility management, leasing and commercial services, science, education, culture and sanitation increased by RMB663 million, RMB538 million and RMB87 million, respectively, as a result of the earthquake; NPLs in textiles and apparels increased by RMB479 million and the NPL ratio grew by 0.73 percentage point, which is mainly because of the adverse impact caused by rising costs of raw materials and deteriorated export demand on the textiles and

apparel enterprises; NPLs in construction increased by RMB223 million, and the NPL ratio climbed by 0.01 percentage point mainly because some borrowers suffered from operation difficulties due to the adverse impact of the urban construction and property development industries.

CHANGES IN ALLOWANCE FOR IMPAIRMENT LOSS ON LOANS

	<i>In RMB millions</i>		
	Individually assessed	Collectively assessed	Total
At the beginning of the year	58,944	56,743	115,687
Charge for the year	10,955	25,557	36,512
Including: New impairment allowances charged	25,045	54,683	79,728
Impairment allowances transferred	443	(443)	—
Reversal of impairment allowances	(14,533)	(28,683)	(43,216)
Accreted interest on impaired loans	(1,538)	—	(1,538)
Write-offs	(11,917)	(456)	(12,373)
Recoveries of loans and advances previously written off	83	146	229
Transfer out ⁽¹⁾	(2,468)	(66)	(2,534)
At the end of the year	<u>54,059</u>	<u>81,924</u>	<u>135,983</u>

Note: (1) Transfer out mainly represents impairment losses of loans transferred out into repossessed assets.

At the end of 2008, the balance of allowance for impairment losses on loans amounted to RMB135,983 million, representing an increase of RMB20,296 million or 17.5%; the ratio of allowance to NPL was 130.15%, up 26.65 percentage points; and the allowance to total loans ratio was 2.97%, up 0.13 percentage point, representing further improvement in the Bank's risk resistance ability.

Investment

At the end of 2008, net investment in securities amounted to RMB3,048,310 million, a decrease of RMB59,018 million or 1.9% from the end of last year, which is mainly because the MOF partly repaid the principal of MOF receivables and the Bank actively reduced the investment in foreign currency bonds to avoid risks on a proper and timely basis.

INVESTMENT

In RMB millions, except for percentages

Item	At 31 December 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Investment in securities not related to restructuring	2,063,981	67.7	2,074,094	66.7
Investment in securities related to restructuring ⁽¹⁾	975,559	32.0	1,026,767	33.1
Equity instruments	8,770	0.3	6,467	0.2
Total	3,048,310	100.0	3,107,328	100.0

Note: (1) Includes Huarong bonds, special government bonds, MOF receivable and special PBOC bills.

Investment in securities not related to restructuring amounted to RMB2,063,981 million, a decrease of RMB10,113 million or 0.5% from the end of last year, which was due to the Bank's adjustment of its investment strategies and the rebalancing of its investment (in terms of product, maturity and currency mix) in response to the development in the global and domestic financial markets. With respect to the investment portfolio analysis by issuers, investment in bonds issued by policy banks increased by RMB46,816 million or 8.4%; and investment in other bonds decreased by RMB60,692 million or 20.0% mainly because the Bank reduced the investment in foreign currency bonds during the reporting period. With respect to the investment portfolio analysis by remaining maturity, bonds not related to restructuring with a term of more than one year increased by RMB103,101 million or 7.0% mainly because the Bank increased the investment in medium to long-term RMB bonds and extended the duration of investment portfolio. With respect to the investment portfolio analysis by currency, RMB bonds grew by RMB73,264 million or 3.9% mainly because the Bank closely monitored the trend of RMB debt securities market and increased the investment in RMB bonds at the peak of the yield curve; the RMB equivalent of investment in foreign currency bonds decreased by RMB83,377 million or 39.5%, mainly because the Bank cut down the investment in foreign currency bonds on a proper and timely basis.

The investment in securities related to restructuring was RMB975,559 million, representing a decrease of RMB51,208 million from the end of 2007 which was due to the repayment of MOF receivables during the reporting period.

DISTRIBUTION OF INVESTMENT IN SECURITIES NOT RELATED TO RESTRUCTURING BY ISSUERS

In RMB millions, except for percentages

Item	At 31 December 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Government bonds	422,585	20.5	431,917	20.8
Policy bank bonds	601,127	29.1	554,311	26.7
Central bank bills	797,024	38.6	783,929	37.8
Other bonds	243,245	11.8	303,937	14.7
Total	2,063,981	100.0	2,074,094	100.0

DISTRIBUTION OF INVESTMENT IN SECURITIES BY HOLDING PURPOSES

In RMB millions, except for percentages

Item	At 31 December 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Investments at fair value through profit or loss	33,641	1.1	34,321	1.1
Available-for-sale investments	537,580	17.6	531,155	17.1
Held-to-maturity investments	1,314,320	43.1	1,330,085	42.8
Receivables	1,162,769	38.2	1,211,767	39.0
Total	3,048,310	100.0	3,107,328	100.0

At the end of 2008, the Group held USD1,195 million of US sub-prime residential mortgage-backed securities, USD599 million of Alt-A residential mortgage-backed securities, and USD55 million of structured investment vehicles (SIVs). The total nominal value of the abovementioned debt securities was USD1,849 million, representing 0.13% of the Group's total assets.

The nominal value of debt securities related to Lehman Brothers was USD144 million, representing 0.01% of the Group's total assets.

The nominal value of corporate collateralized debt obligations (Corporate CDOs) was USD505 million, representing 0.04% of the Group's total assets.

The Group has made accumulative allowance for impairment loss of USD1,791 million based on the market valuation results of the abovementioned assets. The provision coverage (provisions/unrealized loss) was 101.88%, and the provision ratio (provisions/nominal value) was 71.70%.

At the end of 2008, the nominal value of debt securities related to Freddie Mac and Fannie Mae, US mortgage agencies, was USD1,642 million, of which the debt securities issued by Freddie Mac and Fannie Mae were USD210 million and the mortgage-backed securities guaranteed by Freddie Mac and Fannie Mae were USD1,432 million, aggregately representing 0.12% of the Group's total assets. The Group has made accumulative allowance for impairment loss of USD126 million for the abovementioned debt securities. The provision coverage was 102.44%, and the provision ratio was 7.67%. The repayment of principal and interest of these debt securities is considered as normal at present.

The Group believes that allowance for impairment losses of the abovementioned assets has reflected the impact of the observable market conditions as at the end of the reporting period. The Group will closely monitor the future development of the market.

LIABILITIES

At the end of 2008, total liabilities of the Bank increased by RMB1,010,480 million or 12.4% as compared to the end of 2007 and amounted to RMB9,150,516 million in aggregate.

LIABILITIES

In RMB millions, except for percentages

Item	At 31 December 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Due to customers	8,223,446	89.9	6,898,413	84.7
Due to banks and other financial institutions	646,254	7.0	805,174	9.9
Repurchase agreements	4,648	0.1	193,508	2.4
Subordinated bonds	35,000	0.4	35,000	0.4
Others	241,168	2.6	207,941	2.6
Total liabilities	9,150,516	100.0	8,140,036	100.0

Due to Customers

Customer deposit is the Bank's main source of fund. Due to the adjustment of capital markets in 2008, the customers enhanced risk awareness in respect of wealth management. Leveraging on its competitive advantages in the market, the Bank achieved a steady growth of deposits. At the end of 2008, the balance of due to customers was RMB8,223,446 million, which contributed 89.9% of the total liabilities, with an increase of RMB1,325,033 million or 19.2% compared with that of the end of 2007. It is the year with the largest increase in customer deposits balance in the Bank's history.

With respect to the structure of customers, the ratio of corporate deposits balance to total deposits balance decreased by 1.4 percentage points, while that of personal deposits balance to total deposits balance increased by 1.8 percentage points. With respect to the structure of maturity, the ratio of demand deposits balance to total deposits balance decreased by 2.7 percentage points, while that of time deposits balance to the total deposit balance increased by 3.1 percentage points.

DISTRIBUTION OF DUE TO CUSTOMERS BY BUSINESS LINES

In RMB millions, except for percentages

Item	At 31 December 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate deposits				
Time deposits	1,380,907	16.8	1,039,853	15.1
Demand deposits	2,558,060	31.1	2,362,830	34.2
Sub-total	3,938,967	47.9	3,402,683	49.3
Personal deposits				
Time deposits	2,578,265	31.4	2,069,506	30.0
Demand deposits	1,431,983	17.4	1,174,568	17.0
Sub-total	4,010,248	48.8	3,244,074	47.0
Overseas	158,222	1.9	136,707	2.0
Others⁽¹⁾	116,009	1.4	114,949	1.7
Total	8,223,446	100.0	6,898,413	100.0

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

Due to Banks and Other Financial Institutions

At the end of 2008, the balance of due to banks and other financial institutions was RMB646,254 million, a decrease of RMB158,920 million or 19.7% as compared with the prior year. By virtue of the profound adjustment of capital markets, the amount of due to banks and other financial institutions in relation to securities transactions decreased.

7.4 Other Financial Information

Changes in Accounting Policy

According to the relevant regulations of the “Interpretation of the Accounting Standards for Business Enterprises No. 2” (Caikuai [2008] No.11) issued by MOF, the accounting policy adopted for property and equipment in the H share financial statements prepared in accordance with IFRSs need to be changed to cost method. Since the Bank’s fixed assets are principally held for self-use, cost method is a more objective and accurate approach which better reflects the economic substance of transactions, and provides more reliable and relevant information for users of the statements. It also further eliminates the difference between accounting policies applied to A shares and H shares financial statements. The changes in accounting policy have no impact on the financial statements of 2008.

Movement of Financial Instruments Measured at Fair Value and the Effect on Profit or Loss

Quoted market price in an active market is the best evidence of the fair value of the Group’s financial instruments measured at fair value. In the event that the market for a financial instrument is inactive, valuation techniques shall be adopted. The majority of the valuation techniques adopted only observable market data, while those of some other financial instruments may use one or more inputs that are not observable in the market. The Group’s financial instruments measured at fair value primarily include investment in RMB bonds and foreign currency bonds and derivatives etc.. The fair value of investment in RMB bonds is mainly based on quoted market price or determined using valuation techniques based only on observable market data. The fair value of foreign currency bonds is established mainly by referring to the quoted prices from dealers, brokers and valuation service providers. The fair value of vanilla derivatives is mainly determined using valuation models that are generally adopted by market participants. Inputs to valuation models are determined from observable market data as far as possible, such as the market quotation of spot and forward exchange rates and the market yield curve. For more complex structured derivatives, the fair value is mainly determined by reference to quoted prices from counterparties.

In terms of the internal control related to the determination of fair value, the Bank has set up a market risk management control system, established policies governing valuation, established specific valuation methods for financial market products, improved the workflow and procedures in respect of valuation, and gradually formed a working mechanism for valuation and validation. The policy and methods for determination of fair value have been reviewed by the Market Risk Management Committee.

The following tables are prepared in accordance with the formats prescribed in the announcement No.48 of 2008 of CSRC.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

In RMB millions

Item	Balance at the beginning of the year	Fair value changes through profit or loss during the year	Accumulated fair value changes directly recognized into equity	Impairment loss for the year	Balance at the end of the year
Financial assets					
Includes: 1. Financial assets at fair value through profit or loss ⁽¹⁾	57,090	(6,967)	—	—	49,362
Includes: Derivative financial assets	22,769	(7,048)	—	—	15,721
2. Available-for-sale financial assets	<u>528,135</u>	<u>—</u>	<u>6,594</u>	<u>(16,162)</u>	<u>535,690</u>
Sub-total of financial assets	<u>585,225</u>	<u>(6,967)</u>	<u>6,594</u>	<u>(16,162)</u>	<u>585,052</u>
Financial liabilities	<u>22,717</u>	<u>(6,654)</u>	<u>—</u>	<u>—</u>	<u>25,446</u>

Note: (1) Includes the derivative financial assets.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES DENOMINATED IN FOREIGN CURRENCIES HELD BY THE BANK

In RMB millions

Item	Balance at the beginning of the year	Fair value changes through profit or loss during the year	Accumulated fair value changes directly recognized into equity	Impairment loss for the year	Balance at the end of the year
Financial assets					
Includes: 1. Financial assets at fair value through profit or loss ⁽¹⁾	6,285	2,229	—	—	14,171
Includes: Derivative financial assets	3,379	2,472	—	—	5,851
2. Loans and receivables	325,861	—	—	2,719	275,908
3. Available-for-sale financial assets	157,362	—	(3,973)	(16,162)	108,163
4. Held-to-maturity investments	53,101	—	—	(1,616)	17,618
Sub-total of financial assets	<u>542,609</u>	<u>2,229</u>	<u>(3,973)</u>	<u>(15,059)</u>	<u>415,860</u>
Financial liabilities	<u>21,706</u>	<u>(1,682)</u>	<u>—</u>	<u>—</u>	<u>19,628</u>

Note: (1) Includes the derivative financial assets.

7.5 Capital Adequacy Ratio

The Bank calculates the capital adequacy ratio and core capital adequacy ratio in accordance with the “Regulations Governing Capital Adequacy of Commercial Banks” and related regulations promulgated by CBRC. At the end of 2008, the Bank’s capital adequacy ratio and core capital adequacy ratio were 13.06% and 10.75%, respectively, representing a decrease of 0.03 and 0.24 percentage point, respectively, as compared to that of last year. The Bank has complied with regulatory requirements for both ratios. The decrease in capital adequacy ratio is mainly due to (1) risk weighted assets increased in the process of the Bank’s rapid development; and (2) the Bank’s equity investment in Standard Bank was completed in the reporting period, and the equity investment in unconsolidated banking institutions shall be deducted from the capital and core capital base.

CAPITAL ADEQUACY RATIO

In RMB millions, except for percentages

Item	At 31 December 2008	At 31 December 2007
Core capital:		
Share capital	334,019	334,019
Reserves ⁽²⁾	205,668	148,631
Minority interests	<u>3,955</u>	<u>5,305</u>
Total core capital	<u>543,642</u>	<u>487,955</u>
Supplementary capital:		
General provision for doubtful debts	82,834	47,979
Subordinated bonds	35,000	35,000
Other supplementary capital	<u>4,164</u>	<u>11,669</u>
Total supplementary capital	<u>121,998</u>	<u>94,648</u>
Total capital base before deductions	<u>665,640</u>	<u>582,603</u>
Deductions:		
Unconsolidated equity investments	19,499	3,868
Goodwill	20,579	1,878
Others	<u>5,529</u>	<u>116</u>
Net capital base	<u>620,033</u>	<u>576,741</u>
Core capital base after deductions	<u>510,549</u>	<u>484,085</u>
Risk weighted assets and market risk capital adjustment	<u>4,748,893</u>	<u>4,405,345</u>
Core capital adequacy ratio	<u>10.75%</u>	<u>10.99%</u>
Capital adequacy ratio	<u>13.06%</u>	<u>13.09%</u>

Note: (1) Regulatory indicators are calculated according to the then regulatory requirements and the accounting standards, and no restatement was made to the comparative figures.

(2) Mainly includes capital reserve, surplus reserves, general reserve and retained profits.

7.6 Outlook

Looking into the year 2009, the global economic depression resulting from the US sub-prime mortgage crisis will expose China's economic growth to more uncertainties, but China's will be able to maintain a relatively fast and steady economic growth as the fundamentals of China's economy remain unchanged. The changes of external environment bring both challenges and opportunities to the Bank's development.

In 2009, the Bank will face the following challenges: the slowed-down growth of China's economy will affect the profitability of some industries and enterprises, leading to possibly bigger credit asset risks; domestic capital markets will see continuous fluctuations, thus affecting the development of fee-based intermediary business relating to the capital markets; the further marketization of interest rates will add more difficulties to the deployment of assets and liabilities and then reduce the margin; the lowered threshold for corporate bond issuance may diverge some credit business requirements; the increased domestic and overseas market risk will increase investment risk and asset management pressure; and the peer competition will become more fierce. The Bank will also face the following opportunities: as it can benefit from the state's policies such as "increase domestic demand and ensure economic growth", the Bank will enjoy bigger space for development in areas like infrastructure credit, consumer credit and related supporting financial services; the bond market development will be favorable to the Bank for developing the bond underwriting and investment, the customers' increased requirements upon asset and wealth management will boost related business growth of the Bank; finally, the restructuring of the international banking industry will also provide the Bank with the opportunity of advancing internationalized and integrated strategies.

In 2009, the Bank will actively respond to the challenges of macro-economic environment and peer competition, make full use of significant opportunities in market developments, and continue with the reformation, innovation and business transformation. The Bank will make great efforts to enhance core competitiveness, maintain stable asset quality and ensure smooth and rapid development of all business lines. The efforts will focus on the following areas. First, the Bank will expand credit market and continuously optimize credit structure. The Bank will continue to strengthen credit marketing to large-sized group customers, small and medium-sized prospective customers and medium and high-end individual customers, increase credit support for basic industries such as transportation, infrastructure construction and energy, and tap emerging industries and modern services market. The Bank will provide effective credit support for relevant industries in line with the requirements on gradient development of domestic economy and the trend of industrial upgrade and transfer. Second, the Bank will strongly promote non-credit businesses such as investment banking, wealth management, cash management and treasury operation, continuously optimize business structure and diversify the sources of income. Third, the Bank will actively promote business innovation, improve operation management and product service capability, enhance the service and brand value through innovation, strengthen the development and promotion of innovative credit products, and further explore the development of asset securitization. Fourth, the Bank will enhance integrated marketing of various business lines, explore the customers' needs, and improve the ability of providing customers with one-stop, all-around and whole-process financial services. Fifth, the Bank will seize the favorable market opportunity to speed up the pace of establishing internationalized and diversified operation. The Bank will improve its global presence, optimize

management techniques and approaches for overseas operations, expedite transformation of overseas business modes and increase the market share of international business. In response to the new situation that a diversified operation pattern rapidly takes shape, the Bank will expedite the improvement of the Group's new management regime, and give full play to the advantages of its brand. Sixth, the Bank will further improve its risk management by enhancing the comprehensive risk management system. The Bank will enhance analysis of macro economic situations, continuously improve risk forecast and judgment, enhance the immediate reaction ability upon unexpected risks, and speed up the development and application of risk management techniques with a view to maintaining sound risk control. Seventh and finally, the Bank will further optimize its asset structure, intensify financing management and issue subordinated bonds to add to supplementary capital at the appropriate time.

8. Significant Events

8.1 Material Legal Proceedings and Arbitration

The Bank is involved in several legal proceedings in the ordinary course of business. Most of these legal proceedings involve enforcement claims initiated by the Bank to recover payment on non-performing loans, and some were arisen from disputes with customers. As at 31 December 2008, the amount of unresolved legal proceedings which the Bank and/or its subsidiaries was/were defendant totaled RMB3,292 million. The Bank does not expect any material adverse effect on its business, financial position or operational results.

8.2 Shares in Other Listed Companies and Financial Enterprises Held by the Bank

Securities Investment

S/N	Type	Stock code	Stock name	Initial investment cost (RMB)	Shares held (10,000)	Book value at the end of the reporting period (RMB)	Percentage of total securities investment at the end of the reporting period (%)	Gain/(loss) during the reporting period (RMB)
1	Stock	3988 (Hong Kong, China)	BOC	29,029,844	1,000	18,695,697	100	(13,463,353)
	Other securities investment held as at the end of the reporting period				—			
	Gain/(loss) from sale of securities investment during the reporting period			—	—	—	—	—
	Total			29,029,844	—	18,695,697	100	(13,463,353)

Note: The stock investment specified above is recognized as financial assets held for trading. The Bank held shares in Bank of China through its subsidiary, Industrial and Commercial Bank of China (Asia) Limited ("ICBC (Asia)").

Shares in Other Listed Companies Held by the Bank

Stock code	Stock name	Initial investment cost (RMB)	Percentage of the investee's share capital (%)	Book value at the end of the reporting period (RMB)	Gain/(loss) during the reporting period ⁽²⁾ (RMB)	Change in owner's equity during the reporting period (RMB)	Accounting item	Source of shares
SBK (South Africa)	Standard Bank Group	33,340,405,522	20.07	28,258,086,468	1,977,497,759	(6,512,288,345)	Long-term equity investment	Investment with self-owned capital
966 (Hong Kong, China)	CHINA INSURANCE	344,185,970	6.82	1,008,422,312	8,595,161	(951,621,096)	Available-for-sale financial assets	Purchase from market
601998	CNCB	149,999,600	0.07	99,827,320	1,383,617	(162,671,980)	Available-for-sale financial assets	Purchase from market
1688 (Hong Kong, China)	ALIBABA	131,782,620	0.20	48,727,230	(71,863,511)	(143,741,428)	Available-for-sale financial assets	Purchase from market
600744	HHEP	25,779,158	3.60	76,890,000	—	(130,200,400)	Available-for-sale financial assets	Consolidation with trust investment company
001740 (Korea)	SK Networks	10,063,627	0.10	10,929,127	—	(27,759,848)	Available-for-sale financial assets	Debt-equity swap
94 (Hong Kong, China)	OMNICORP	9,263,010	1.25	826,278	—	(2,401,800)	Available-for-sale financial assets	Purchase from market
000430	ZTDC	2,000,000	3.33	24,847,200	—	(43,146,000)	Available-for-sale financial assets	Consolidation with trust investment company
4642 (Malaysia)	YHS	500,091	0.02	54,459	5,623	(38,333)	Available-for-sale financial assets	Purchase from market
532 (Singapore)	EQUATION CORP LTD	152,816	<0.01	7,123	—	(13,151)	Available-for-sale financial assets	Purchase from market
000886	HAINAN EXPRESSWAY	112,500	0.02	207,589	—	(730,769)	Available-for-sale financial assets	Consolidation with trust investment company

Notes: (1) The shares in CHINA INSURANCE and ALIBABA were held by ICBC (Asia), a controlling subsidiary of the Bank; shares in SK Networks were held by the Seoul Branch of the Bank; shares in YHS and EQUATION CORP LTD were held by Singapore Branch of the Bank; and shares in OMNICORP were held by Seng Heng Bank Limited (“Seng Heng Bank”), a subsidiary of the Bank.

(2) Refers to dividend income, share of profits and losses of associates and impairment losses.

Shares in Unlisted Financial Enterprise held by the Bank

Company	Initial investment cost (RMB)	Shares held (10,000)	Shareholding percentage (%)	Book value at the end of the reporting period (RMB)	Gain/(loss) during the reporting period ⁽²⁾ (RMB)	Change in owner's equity during the reporting period (RMB)	Accounting item	Source of shares
Tai Ping Insurance Company Ltd.	172,585,678	N/A	7.93	62,489,056	—	—	Available-for-sale financial assets	Investment of proprietary fund
China UnionPay Co., Ltd	146,250,000	11,250.00	3.90	146,250,000	1,800,000	—	Available-for-sale financial assets	Investment of proprietary fund
Xiamen International Bank	102,301,500	N/A	18.75	102,301,500	—	—	Available-for-sale financial assets	Investment of proprietary fund
Guangdong Development Bank	52,465,475	2,379.22	0.21	52,465,475	—	—	Available-for-sale financial assets	Investment of proprietary fund
China Ping An Insurance (HK) Co., Ltd.	14,134,025	27.50	25.00	25,275,066	(12,119,107)	(2,177,083)	Long-term equity investment	Investment of proprietary fund
Joint Electronic Teller Services Limited	10,158,374	0.0024	0.03	9,733,564	2,592,205	—	Available-for-sale financial assets	Investment of proprietary fund
Yueyang City Commercial Bank	3,500,000	353.64	1.59	3,500,000	—	—	Available-for-sale financial assets	Investment of proprietary fund
Luen Fung Hang Insurance Co., Ltd.	1,518,440	2.40	6.00	1,484,579	143,756	—	Available-for-sale financial assets	Investment of proprietary fund
Guilin City Commercial Bank	420,000	113.61	0.28	420,000	215,856	—	Available-for-sale financial assets	Investment of proprietary fund
Nanchang City Commercial Bank	300,000	39.00	0.03	390,000	—	—	Available-for-sale financial assets	Investment of proprietary fund
Total	<u>503,633,492</u>	—	—	<u>404,309,240</u>	<u>(7,367,290)</u>	<u>(2,177,083)</u>	—	—

Notes: (1) The shares in Tai Ping Insurance Company Ltd. and China Ping An Insurance (HK) Co., Ltd. were held by ICBC (Asia), a controlling subsidiary of the Bank; shares in Joint Electronic Teller Services Limited were held by ICBC (Asia) and Seng Heng Bank, controlling subsidiaries of the Bank, and shares in Luen Fung Hang Insurance Co., Ltd. were held by Seng Heng Bank.

(2) Refers to dividend income and share of profits and losses of associates.

Purchase and Sale of Shares in Other Listed Companies

	Stock name	Shares held at the beginning of the reporting period	Shares bought/sold during the reporting period	Shares held at the end of the reporting period	Fund utilized (RMB)	Investment income generated (RMB)
Buy	—	—	550,000	—	3,174,300	—
Sell	—	146,648,994	24,662,107	122,536,887	—	132,274,437

8.3 Material Asset Acquisition, Disposal and Merger

The information on the acquisition of shares and warrants in ICBC (Asia), acquisition of shares in Seng Heng Bank and acquisition of 20% equity interests in Standard Bank Group Limited was included in the 2007 Annual Report. The announcements on the completion of the above three transactions were published in the China Securities Journal, Shanghai Securities News and Securities Times and at the websites of SSE, SEHK and the Bank in January and March 2008, respectively.

8.4 Material Related Party Transactions

During the reporting period, the Bank had not entered into any material related party transactions.

8.5 Material Contracts and Performance of Obligations thereunder

Material Trust, Sub-contract and Lease

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

Material Guarantees

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

Material Events Concerning Entrusting Other Persons for Cash Management or Entrusted Loans

No such matters concerning entrusting other persons for cash management or entrusted loan occurred in the Bank during the reporting period.

8.6 Funds held by Controlling Shareholder and Other Related Parties

None of the controlling shareholder or related parties of the Bank held any fund of the Bank. The auditors have issued the "Special Explanation on the Occupation of Fund by Controlling Shareholder and Other Related Parties of Industrial and Commercial Bank of China Limited in 2008".

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

The shareholders made no new commitments during the reporting period, and the commitments lasting to this reporting period is the same as that disclosed in the 2006 Annual Report. As at 31 December 2008, all commitments made by the shareholders were properly fulfilled.

9. Other Information

9.1 Compliance with the Code on Corporate Governance Practices

During the reporting period, the Bank fully complied with the principles and code provisions stipulated in the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules") and essentially complied with the recommended best practices of the Code.

9.2 Securities Transactions of Directors and Supervisors

The Bank has adopted a set of codes concerning securities transactions by Directors and Supervisors on terms no less stringent than the standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules. Upon enquiries, each of the Directors and Supervisors confirmed that they had complied with the provisions of the aforesaid code during the year ended 31 December 2008.

9.3 Profits and Dividends Distribution

Upon obtaining approval at the Annual General Meeting for the Year 2007 dated 5 June 2008, the Bank has distributed cash dividends of RMB44,425 million, or RMB1.33 per ten shares (including tax), for the period from 1 January 2007 to 31 December 2007 to the shareholders who appeared on the share register as at 17 June 2008.

The Board of Directors of the Bank proposed a cash dividend of RMB1.65 per 10 shares (including tax), totaling RMB55,113 million, for the financial year ended 31 December 2008, which will be subject to the approval at the forthcoming Annual General Meeting for the Year 2008.

If such distribution is approved at the annual general meeting, the dividend is expected to be paid to holders of A shares and H shares whose names appear on the register of members of the Bank after close of trading on 3 June 2009. The register of members of H shares will be closed from 29 May 2009 to 3 June 2009 (both days inclusive). In order to qualify for the proposed cash dividends, holders of H shares who have not registered the transfer documents are required to deposit the transfer documents together with the relevant share certificates at the H share registrar of the Bank, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong at or before 4:30 p.m. on 27 May 2009.

9.4 Purchase, Sale or Redemption of Shares

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

9.5 Use of IPO Proceeds

The IPO proceeds of the Bank were used for the purposes disclosed in the prospectus, namely, strengthening the capital base to support the ongoing growth of the Bank.

9.6 Material Investment of Funds not Raised from the IPO

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

10. Financial Report

10.1 Audit Opinion

The 2008 financial statements of the Bank prepared in accordance with CASs and IFRSs have been audited by Ernst & Young Hua Ming and Ernst & Young, respectively. Ernst & Young Hua Ming and Ernst & Young have expressed unqualified opinions in the auditors' reports.

10.2 Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement

10.2.1 Consolidated Income Statement

Year ended 31 December 2008

(In RMB millions, unless otherwise stated)

	2008	2007
Interest income	440,574	357,287
Interest expense	<u>(177,537)</u>	<u>(132,822)</u>
NET INTEREST INCOME	<u>263,037</u>	<u>224,465</u>
Fee and commission income	46,711	40,015
Fee and commission expense	<u>(2,709)</u>	<u>(1,656)</u>
NET FEE AND COMMISSION INCOME	<u>44,002</u>	<u>38,359</u>
Net trading income	1,883	1,351
Net loss on financial assets and liabilities designated at fair value through profit or loss	(699)	(1,415)
Net gain/(loss) on financial investments	(367)	499
Other operating income/(expense), net	<u>2,339</u>	<u>(5,831)</u>
OPERATING INCOME	310,195	257,428
Operating expenses	(111,335)	(104,660)
Impairment losses on:		
Loans and advances to customers	(36,512)	(33,061)
Others	<u>(18,950)</u>	<u>(4,345)</u>
OPERATING PROFIT	143,398	115,362
Share of profits and losses of associates	<u>1,978</u>	<u>16</u>
PROFIT BEFORE TAX	145,376	115,378
Income tax expense	<u>(34,150)</u>	<u>(33,124)</u>
PROFIT FOR THE YEAR	<u>111,226</u>	<u>82,254</u>
Attributable to:		
Equity holders of the parent company	110,841	81,520
Minority interests	<u>385</u>	<u>734</u>
	<u>111,226</u>	<u>82,254</u>
DIVIDEND		
Proposed final	<u>55,113</u>	<u>44,425</u>
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		
— Basic and diluted (RMB yuan)	<u>0.33</u>	<u>0.24</u>

10.2.2 Consolidated Balance Sheet

31 December 2008

(In RMB millions, unless otherwise stated)

	2008	2007
ASSETS		
Cash and balances with central banks	1,693,024	1,142,346
Due from banks and other financial institutions	168,363	199,758
Financial assets held for trading	32,182	31,536
Financial assets designated at fair value through profit or loss	1,459	2,785
Derivative financial assets	15,721	22,769
Reverse repurchase agreements	163,493	75,880
Loans and advances to customers	4,436,011	3,957,542
Financial investments	3,014,669	3,073,007
Investments in associates	28,421	172
Property and equipment	86,800	80,266
Deferred income tax assets	10,746	5,833
Other assets	106,257	91,818
TOTAL ASSETS	9,757,146	8,683,712
LIABILITIES		
Financial liabilities held for trading	4,268	—
Financial liabilities designated at fair value through profit or loss	7,566	15,590
Derivative financial liabilities	13,612	7,127
Due to banks and other financial institutions	646,254	805,174
Repurchase agreements	4,648	193,508
Certificates of deposit	726	562
Due to customers	8,223,446	6,898,413
Income tax payable	37,862	33,668
Deferred income tax liabilities	16	337
Subordinated bonds	35,000	35,000
Other liabilities	177,118	150,657
TOTAL LIABILITIES	9,150,516	8,140,036
EQUITY		
Equity attributable to equity holders of the parent company		
Issued share capital	334,019	334,019
Reserves	195,727	158,204
Retained profits	72,929	46,148
	602,675	538,371
Minority interests	3,955	5,305
TOTAL EQUITY	606,630	543,676
TOTAL EQUITY AND LIABILITIES	9,757,146	8,683,712

10.2.3 Consolidated Statement of Changes in Equity

Year ended 31 December 2008

(In RMB millions, unless otherwise stated)

Attributable to equity holders of the parent company

	Reserves								Subtotal	Retained profits	Total	Minority interests	Total equity
	Issued share capital	Capital reserve	Surplus reserves	General reserve	Investment revaluation reserve	Foreign currency translation reserve	Cash flow hedge reserve	Other reserves					
Balance as at 1 January 2008	334,019	106,312	13,536	40,834	(1,389)	(1,089)	—	—	158,204	46,148	538,371	5,305	543,676
Net change in the fair value of available-for-sale investments	—	—	—	—	6,594	—	—	—	6,594	—	6,594	(832)	5,762
Reserve realised on disposal/impairment of available-for-sale investments	—	—	—	—	3,228	—	—	—	3,228	—	3,228	201	3,429
Net loss on cash flow hedges	—	—	—	—	—	—	(4,075)	—	(4,075)	—	(4,075)	2	(4,073)
Foreign currency translation	—	—	—	—	—	(8,359)	—	—	(8,359)	—	(8,359)	(245)	(8,604)
Share of changes recognised directly in equity of associates	—	—	—	—	(18)	218	27	273	500	—	500	—	500
Total income and expense for the year recognised directly in equity	—	—	—	—	9,804	(8,141)	(4,048)	273	(2,112)	—	(2,112)	(874)	(2,986)
Profit for the year	—	—	—	—	—	—	—	—	—	110,841	110,841	385	111,226
Total income and expense for the year	—	—	—	—	9,804	(8,141)	(4,048)	273	(2,112)	110,841	108,729	(489)	108,240
Dividend — 2007 final	—	—	—	—	—	—	—	—	—	(44,425)	(44,425)	—	(44,425)
Appropriation to surplus reserves ⁽ⁱ⁾	—	—	11,114	—	—	—	—	—	11,114	(11,114)	—	—	—
Appropriation to general reserve ⁽ⁱⁱ⁾	—	—	—	28,521	—	—	—	—	28,521	(28,521)	—	—	—
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	368	368
Change in shareholdings in a subsidiary	—	—	—	—	—	—	—	—	—	—	—	(854)	(854)
Dividends to minority shareholders	—	—	—	—	—	—	—	—	—	—	—	(375)	(375)
Balance as at 31 December 2008	334,019	106,312	24,650	69,355	8,415	(9,230)	(4,048)	273	195,727	72,929	602,675	3,955	606,630

(i) Includes the appropriation made by overseas branches and subsidiaries in the amount of RMB9 million and RMB53 million, respectively.

(ii) Includes the appropriation made by subsidiaries in the amount of RMB147 million.

Attributable to equity holders of the parent company

	Reserves							Retained profits	Total	Minority interests	Total equity
	Issued share capital	Capital reserve	Surplus reserves	General reserve	Investment revaluation reserve	Foreign currency translation reserve	Subtotal				
Balance as at 1 January 2007	334,019	106,312	5,464	12,719	2,142	(351)	126,286	6,159	466,464	4,537	471,001
Net change in the fair value of available-for-sale investments	—	—	—	—	(5,758)	—	(5,758)	—	(5,758)	389	(5,369)
Reserve realised on disposal/impairment of available-for-sale investments	—	—	—	—	2,227	—	2,227	—	2,227	65	2,292
Foreign currency translation	—	—	—	—	—	(738)	(738)	—	(738)	(369)	(1,107)
Total income and expense for the year recognised directly in equity	—	—	—	—	(3,531)	(738)	(4,269)	—	(4,269)	85	(4,184)
Profit for the year	—	—	—	—	—	—	—	81,520	81,520	734	82,254
Total income and expense for the year	—	—	—	—	(3,531)	(738)	(4,269)	81,520	77,251	819	78,070
Dividend — 2006 final	—	—	—	—	—	—	—	(5,344)	(5,344)	—	(5,344)
Appropriation to surplus reserves ⁽ⁱ⁾	—	—	8,072	—	—	—	8,072	(8,072)	—	—	—
Appropriation to general reserve ⁽ⁱⁱ⁾	—	—	—	28,115	—	—	28,115	(28,115)	—	—	—
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	9	9
Change in shareholdings in a subsidiary	—	—	—	—	—	—	—	—	—	338	338
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	—	(398)	(398)
Balance as at 31 December 2007	<u>334,019</u>	<u>106,312</u>	<u>13,536</u>	<u>40,834</u>	<u>(1,389)</u>	<u>(1,089)</u>	<u>158,204</u>	<u>46,148</u>	<u>538,371</u>	<u>5,305</u>	<u>543,676</u>

(i) Includes the appropriation made by overseas branches in the amount of RMB7 million in aggregate.

(ii) Includes the appropriation made by a subsidiary in the amount of RMB33 million.

10.2.4 Consolidated Cash Flow Statement

Year ended 31 December 2008

(In RMB millions, unless otherwise stated)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	145,376	115,378
Adjustments for:		
Share of profits and losses of associates	(1,978)	(16)
Depreciation	8,190	8,318
Amortisation	1,300	1,174
Amortisation of financial investments	(4,345)	(13,033)
Impairment losses on loans and advances to customers	36,512	33,061
Impairment losses on assets other than loans and advances to customers	18,950	4,345
Unrealised foreign exchange difference	30,390	9,086
Interest expense on subordinated bonds	1,241	1,181
Accreted interest on impaired loans	(1,538)	(1,430)
Loss/(gain) on disposal of available-for-sale investments, net	449	(425)
Net trading loss/(gain) on equity investments	14	(4)
Net gain on disposal of property and equipment and other assets (other than repossessed assets)	(518)	(678)
Dividend income	(82)	(74)
	233,961	156,883
Net decrease/(increase) in operating assets:		
Due from central banks	(262,312)	(422,734)
Due from banks and other financial institutions	13,801	16,753
Financial assets held for trading	6,580	(12,235)
Financial assets designated at fair value through profit or loss	1,182	(974)
Reverse repurchase agreements	(56,115)	(37,500)
Loans and advances to customers	(541,025)	(475,760)
Other assets	(7,133)	(16,739)
	(845,022)	(949,189)
Net increase/(decrease) in operating liabilities:		
Financial liabilities designated at fair value through profit or loss	(6,759)	(16,559)
Due to banks and other financial institutions	(148,259)	407,331
Repurchase agreements	(188,835)	146,522
Certificates of deposit	(252)	(1,145)
Due to customers	1,337,886	585,368
Other liabilities	26,738	(11,682)
	1,020,519	1,109,835

Net cash inflow from operating activities before tax	409,458	317,529
Income tax paid	(38,545)	(21,400)
	<hr/>	<hr/>
Net cash inflow from operating activities	370,913	296,129
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment and other assets	(15,554)	(9,385)
Proceeds from disposal of property and equipment and other assets (other than repossessed assets)	520	2,823
Purchases of financial investments	(1,086,048)	(1,455,833)
Proceeds from sale and redemption of investments	1,127,448	1,217,425
Acquisition of a subsidiary	2,261	144
Acquisition of minority interests	(1,783)	—
Acquisition of an associate	(37,420)	(134)
Proceeds from disposal of an associate	—	94
Dividends received	652	74
	<hr/>	<hr/>
Net cash outflow from investing activities	(9,924)	(244,792)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contribution by minority shareholders	66	—
Interest paid on subordinated bonds	(1,240)	(1,205)
Dividends paid on ordinary shares	(44,425)	(15,490)
Dividends paid to minority shareholders	(325)	(398)
	<hr/>	<hr/>
Net cash outflow from financing activities	(45,924)	(17,093)
 NET INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of the year	315,065	34,244
Effect of exchange rate changes on cash and cash equivalents	301,687	275,360
	(9,461)	(7,917)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	607,291	301,687
 NET CASH INFLOW FROM OPERATING ACTIVITIES		
INCLUDES:		
Interest received	425,143	328,121
Interest paid	(148,789)	(119,736)
	<hr/>	<hr/>

10.3 New and Revised IFRS that are Effective or Early Adopted in 2008 and Relevant to the Group

The International Accounting Standards Board has issued the following new and revised IFRSs and IFRIC interpretations that are effective or early adopted in 2008 and relevant to the Group's operation.

IAS 39 and IFRS 7 Amendments	Financial Instruments: Recognition, Measurement and Disclosure - Reclassification of Financial Assets
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC 13	Customer Loyalty Programmes

The principal effects of adopting these new and revised IFRSs and IFRIC interpretations are as follows:

The amendments to IAS 39 and IFRS 7 allow reclassifications of certain financial instruments held for trading to either the held-to-maturity, loans and receivables or available-for-sale category, if specified criteria are met. The amendments also allow the reclassification of certain instruments from available-for-sale to loans and receivables. The amendments may be applied retrospectively but not before 1 July 2008. Any reclassification of a financial asset made in periods beginning on or after 1 November 2008 shall take effect only from the date when the reclassification is made. The Group has not made any significant reclassification pursuant to these amendments during the year.

IFRIC interpretation 11 requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity settled scheme, even if the entity buys the instrument from another party, or the shareholders provide the equity instruments needed. As the Group currently has no such transactions, the interpretation has had no impact on the financial position and results of operations of the Group.

IFRIC interpretation 13 requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue when the award credits are redeemed or the liability is otherwise extinguished. The Group has early adopted IFRIC interpretation 13 in 2008. The impact of adopting IFRIC interpretation 13 is not significant to these financial statements.

10.4 Notes to Consolidated Financial Statements

(In RMB millions, unless otherwise stated)

10.4.1 Net Interest Income

	2008	2007
Interest income on:		
Loans and advances to customers		
— Personal loans	56,869	42,742
— Corporate loans	234,696	180,792
— Discounted bills	15,538	14,346
Due from central banks	22,634	14,805
Due from banks and other financial institutions	8,149	12,878
Financial investments	102,688	91,724
	<u>440,574</u>	<u>357,287</u>
Interest expense on:		
Due to customers	(160,253)	(116,336)
Due to banks and other financial institutions	(16,043)	(15,305)
Subordinated bonds	(1,241)	(1,181)
	<u>(177,537)</u>	<u>(132,822)</u>
Net interest income	<u>263,037</u>	<u>224,465</u>

10.4.2 Net Fee and Commission Income

	2008	2007
Settlement, clearing business and cash management	13,002	9,215
Personal wealth management and private banking services	10,327	15,994
Investment banking business	8,028	4,505
Bank card business	7,199	5,372
Corporate wealth management services	2,788	1,949
Assets fiduciary business	2,066	1,465
Guarantee and commitment business	1,849	563
Trust and agency services	756	584
Others	696	368
	<u>46,711</u>	<u>40,015</u>
Fee and commission expense	<u>(2,709)</u>	<u>(1,656)</u>
Net fee and commission income	<u>44,002</u>	<u>38,359</u>

10.4.3 Net Trading Income

	2008	2007
Debt securities	1,943	1,343
Equity investments	(14)	4
Derivatives	(46)	4
	<u>1,883</u>	<u>1,351</u>

10.4.4 Net Loss on Financial Assets and Liabilities Designated at Fair Value through Profit or Loss

	2008	2007
Financial assets	(55)	192
Financial liabilities	(644)	(1,607)
	<u>(699)</u>	<u>(1,415)</u>

10.4.5 Net Gain/(Loss) on Financial Investments

	2008	2007
Dividend income from unlisted investments	69	74
Dividend income from listed investments	13	—
	<u>82</u>	<u>74</u>
Gain/(loss) on disposal of available-for-sale investments, net	(449)	425
	<u>(367)</u>	<u>499</u>

10.4.6 Other Operating Income/(Expense), Net

	2008	2007
Loss from foreign exchange and foreign exchange products, net	(851)	(9,457)
Net gain on disposal of property and equipment, repossessed assets and others	1,563	1,838
Sundry bank charge income	251	698
Others	1,376	1,090
	<u>2,339</u>	<u>(5,831)</u>

10.4.7 Operating Expenses

	2008	2007
Staff costs:		
Salaries and bonuses	35,169	27,159
Staff benefits	10,846	10,679
Contributions to defined contribution schemes	5,237	4,561
Early retirement benefits	2,000	12,500
	<u>53,252</u>	<u>54,899</u>
Premises and equipment expenses:		
Depreciation	8,190	8,318
Minimum lease payments under operating leases in respect of land and buildings	2,469	2,023
Repairs and maintenance charges	2,686	2,145
Utility expenses	1,672	1,556
	<u>15,017</u>	<u>14,042</u>
Amortisation	1,300	1,174
Other administrative expenses	17,243	14,816
Business tax and surcharges	18,765	14,511
Others	5,758	5,218
	<u>111,335</u>	<u>104,660</u>

10.4.8 Impairment Losses on Assets Other than Loans and Advances to Customers

	2008	2007
Charge/(reversal) of impairment losses on:		
Due from banks and other financial institutions	(121)	22
Financial investments:		
Held-to-maturity debt securities	1,616	110
Available-for-sale investments	16,485	3,135
Property and equipment	16	536
Other assets	954	542
	<u>18,950</u>	<u>4,345</u>

10.4.9 Income Tax Expense

Pursuant to the new corporate income tax law which has become effective from 1 January 2008 onwards, the PRC income tax has been provided at the statutory rate of 25% (2007: 33%) during the year. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries/regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2008	2007
Current income tax expense:		
PRC		
— Mainland China	42,054	40,137
— Hong Kong and Macau	142	359
Overseas	93	76
	<u>42,289</u>	<u>40,572</u>
Adjustment in respect of current income tax of prior years	400	(1,890)
	<u>42,689</u>	<u>38,682</u>
Deferred income tax credit	(8,539)	(5,558)
	<u>34,150</u>	<u>33,124</u>

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

	2008	2007
Profit before tax	<u>145,376</u>	<u>115,378</u>
Tax at the PRC statutory income tax rate	36,344	38,075
Effects of different applicable rates of tax prevailing in other countries/regions	(112)	(371)
Non-deductible expenses	2,049	1,906
Non-taxable income	(4,335)	(6,446)
Profits and losses attributable to associates	(494)	—
Effects of change in tax rate on deferred income tax	—	1,636
Adjustment in respect of current income tax of prior years	400	(1,890)
Others	298	214
Tax expense at the Group's effective income tax rate	<u>34,150</u>	<u>33,124</u>

10.4.10 Dividends

	2008	2007
Dividends on ordinary shares declared and paid: Final dividend for 2007: RMB0.133 per share (2006: RMB0.016 per share)	<u>44,425</u>	<u>5,344</u>
Dividends on ordinary shares proposed for approval (not recognised as at 31 December): — Final dividend for 2008: RMB0.165 per share (2007: RMB0.133 per share)	<u>55,113</u>	<u>44,425</u>

The proposed final dividend for the year is subject to the approval of the Bank's shareholders at the forthcoming annual general meeting. The dividend was not recognised as a liability as at 31 December 2008.

10.4.11 Earnings per Share Attributable to Equity Holders of the Parent Company

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

	2008	2007
Earnings:		
Profit for the year attributable to equity holders of the parent company	<u>110,841</u>	<u>81,520</u>
Shares:		
Weighted average number of ordinary shares in issue (million)	<u>334,019</u>	<u>334,019</u>
Basic and diluted earnings per share (RMB yuan)	<u>0.33</u>	<u>0.24</u>

There were no dilutive events during the year ended 31 December 2008 and 31 December 2007.

10.4.12 Derivative Financial Instruments

A derivative is a financial instrument, the value of which changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other similar variables. The Group uses derivative financial instruments including forwards, swaps and options.

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

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

At the balance sheet date, the Group had derivative financial instruments as follows:

31 December 2008

	Notional amounts with remaining life of				Fair values		
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward and swap contracts	242,378	191,333	16,327	11,769	461,807	8,749	(5,721)
Option contracts purchased	5,853	8,843	20	—	14,716	305	(305)
	<u>248,231</u>	<u>200,176</u>	<u>16,347</u>	<u>11,769</u>	<u>476,523</u>	<u>9,054</u>	<u>(6,026)</u>
Interest rate contracts:							
Swap contracts	5,094	22,711	103,525	51,392	182,722	6,543	(7,462)
Forward contracts	3,964	3,759	21,802	1,504	31,029	118	(118)
Option contracts purchased/written	—	—	529	—	529	5	(5)
	<u>9,058</u>	<u>26,470</u>	<u>125,856</u>	<u>52,896</u>	<u>214,280</u>	<u>6,666</u>	<u>(7,585)</u>
Other derivative contracts	27	96	—	—	123	1	(1)
	<u>257,316</u>	<u>226,742</u>	<u>142,203</u>	<u>64,665</u>	<u>690,926</u>	<u>15,721</u>	<u>(13,612)</u>

31 December 2007

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

Cash flow hedges

The Group's cash flow hedge consists of foreign exchange forward and currency swap contracts that are used to protect against exposures to variability of future cash flows arising from floating rate foreign currency denominated assets and a forecast transaction which subsequently occurred and resulted in the recognition of an investment in a foreign operation during the year. The effective portion of the gain or loss on the hedging instrument is recognised directly in cash flow hedge reserve, being a component in equity, and will be recycled into the profit or loss when the forecast cash flows or the investment acquired affects the income statement. The ineffective portion is immediately recognised in the income statement.

Among the above derivative financial instruments, those designated as hedging instruments in the Group's cash flow hedge are set out below.

31 December 2008

	Notional amounts with remaining life of				Fair values		
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Currency swap contract	—	444	—	—	444	—	(33)

31 December 2007: Nil

There is no ineffectiveness recognised in the income statement that arises from cash flow hedges for the current year (2007: Nil).

Fair value hedges

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

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

	2008	2007
Loss arising from fair value hedge, net:		
— Hedging instruments	(529)	(211)
— Hedged items attributable to the hedged risk	496	208
	(33)	(3)

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

31 December 2008

	Notional amounts with remaining life of				Fair values		
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Currency swap contracts	—	—	124	—	124	—	(23)
Interest rate swap contracts	312	1,721	9,681	1,191	12,905	3	(796)
	312	1,721	9,805	1,191	13,029	3	(819)

31 December 2007

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

The credit risk weighted amounts in respect of the above derivatives of the Group as at the balance sheet date are as follows:

	2008	2007
Currency derivatives	5,900	5,117
Interest rate derivatives	6,141	1,729
Other derivatives	8	—
	<u>12,049</u>	<u>6,846</u>

The credit risk weighted amounts represent the counterparty credit risk associated with derivative transactions and are calculated with reference to the guidelines issued by the CBRC. The amounts calculated are dependent on, among other factors, the credit worthiness of the customer and the maturity characteristic of each type of contract. The amount differs from the carrying amount or maximum exposure to credit risk.

10.4.13 Financial Investments

	2008	2007
Receivables	1,162,769	1,211,767
Held-to-maturity debt securities	1,314,320	1,330,085
Available-for-sale investments	537,580	531,155
	<u>3,014,669</u>	<u>3,073,007</u>

10.4.14 Segment Information

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

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

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

(a) Business segments

The Group comprises the following main business segments:

Corporate banking

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

Personal banking

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

Treasury operations

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

Others

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

	Corporate banking	Personal banking	Treasury operations	Others	Total
Year ended 31 December 2008					
External net interest income/ (expense)	181,782	(36,122)	117,377	—	263,037
Internal net interest income/ (expense)	(56,035)	123,456	(67,421)	—	—
Net fee and commission income	24,907	18,953	142	—	44,002
Other operating income/ (expense), net	2,414	14	(171)	899	3,156
Operating income	153,068	106,301	49,927	899	310,195
Operating expenses	(54,683)	(36,716)	(13,452)	(6,484)	(111,335)
Impairment losses on:					
Loans and advances to customers	(30,639)	(5,873)	—	—	(36,512)
Others	(554)	(6)	(17,590)	(800)	(18,950)
Operating profit/(loss)	67,192	63,706	18,885	(6,385)	143,398
Share of profits and losses of associates	—	—	—	1,978	1,978
Profit/(loss) before tax	67,192	63,706	18,885	(4,407)	145,376
Income tax expense					(34,150)
Profit for the year					111,226
Other segment information:					
Depreciation	3,663	2,470	1,579	478	8,190
Amortisation	640	360	269	31	1,300
Capital expenditure	7,334	4,883	3,147	900	16,264
As at 31 December 2008					
Segment assets	3,706,953	878,988	5,105,568	37,216	9,728,725
Investments in associates					28,421
Total assets					9,757,146
Segment liabilities	4,280,441	4,147,162	715,448	7,465	9,150,516
Other segment information:					
Credit commitments	775,643	160,830	—	—	936,473

	Corporate banking	Personal banking	Treasury operations	Others	Total
Year ended 31 December 2007					
External net interest income/ (expense)	143,512	(21,968)	102,921	—	224,465
Internal net interest income/ (expense)	(28,160)	84,742	(56,582)	—	—
Net fee and commission income	14,753	23,400	206	—	38,359
Other operating income/ (expense), net	(2,469)	—	(5,113)	2,186	(5,396)
Operating income	127,636	86,174	41,432	2,186	257,428
Operating expenses	(49,405)	(38,603)	(12,467)	(4,185)	(104,660)
Impairment losses on:					
Loans and advances to customers	(30,336)	(2,725)	—	—	(33,061)
Others	(277)	(217)	(3,329)	(522)	(4,345)
Operating profit/(loss)	47,618	44,629	25,636	(2,521)	115,362
Share of profits and losses of associates	—	—	—	16	16
Profit/(loss) before tax	47,618	44,629	25,636	(2,505)	115,378
Income tax expense					(33,124)
Profit for the year					<u>82,254</u>
Other segment information:					
Depreciation	3,674	2,914	1,512	218	8,318
Amortisation	528	402	222	22	1,174
Capital expenditure	4,158	3,299	1,712	247	9,416
As at 31 December 2007					
Segment assets	3,304,163	800,948	4,555,289	23,140	8,683,540
Investments in associates					<u>172</u>
Total assets					<u>8,683,712</u>
Segment liabilities	<u>3,718,053</u>	<u>3,346,591</u>	<u>1,063,941</u>	<u>11,451</u>	<u>8,140,036</u>
Other segment information:					
Credit commitments	<u>683,551</u>	<u>106,136</u>	<u>—</u>	<u>—</u>	<u>789,687</u>

(b) Geographical segments

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

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

The details of the geographical segments are as follows:

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

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Eliminations	Total
Year ended 31 December 2008										
External net interest income	118,029	47,738	26,021	14,805	19,704	26,457	4,533	5,750	—	263,037
Internal net interest income/(expense)	(84,690)	13,690	10,497	32,580	11,618	10,461	6,561	(717)	—	—
Net fee and commission income	2,245	10,687	7,217	8,437	5,522	5,723	2,282	1,889	—	44,002
Other operating income/(expense), net	(6,842)	2,279	2,344	1,736	1,027	1,719	1,102	(209)	—	3,156
Operating income	28,742	74,394	46,079	57,558	37,871	44,360	14,478	6,713	—	310,195
Operating expenses	(6,743)	(21,081)	(14,496)	(19,298)	(17,829)	(20,249)	(9,213)	(2,426)	—	(111,335)
Impairment losses on:										
Loans and advances to customers	(409)	(10,102)	(5,632)	(7,861)	(5,012)	(5,442)	(1,375)	(679)	—	(36,512)
Others	(16,768)	(225)	92	(136)	(329)	(123)	(439)	(1,022)	—	(18,950)
Operating profit	4,822	42,986	26,043	30,263	14,701	18,546	3,451	2,586	—	143,398
Share of profits and losses of associates	—	—	—	—	—	—	—	1,978	—	1,978
Profit before tax	4,822	42,986	26,043	30,263	14,701	18,546	3,451	4,564	—	145,376
Income tax expense										(34,150)
Profit for the year										111,226
Other segment information:										
Depreciation	872	1,356	1,004	1,361	1,341	1,405	760	91	—	8,190
Amortisation	446	193	79	117	185	176	58	46	—	1,300
Capital expenditure	2,541	2,863	1,785	2,334	2,480	3,148	892	221	—	16,264
As at 31 December 2008										
Segment assets	5,229,411	2,003,485	1,174,627	2,402,081	1,245,770	1,342,482	609,063	273,717	(4,562,657)	9,717,979
Investments in associates	—	—	—	—	—	—	—	28,421	—	28,421
Unallocated assets										10,746
Total assets										9,757,146
Segment liabilities	4,825,553	1,952,978	1,145,838	2,365,629	1,226,264	1,318,006	604,331	236,696	(4,562,657)	9,112,638
Unallocated liabilities										37,878
Total liabilities										9,150,516
Other segment information:										
Credit commitments	185,105	215,313	93,180	199,581	54,933	47,067	18,232	123,062	—	936,473

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Eliminations	Total
Year ended 31 December 2007										
External net interest income	105,793	40,044	20,628	11,521	15,892	20,918	4,407	5,262	—	224,465
Internal net interest income/(expense)	(72,274)	11,343	9,256	28,335	9,574	8,961	6,090	(1,285)	—	—
Net fee and commission income	2,390	7,633	6,838	6,841	4,637	5,713	2,571	1,736	—	38,359
Other operating income/(expense), net	(6,624)	161	(337)	(409)	432	1,198	(144)	327	—	(5,396)
Operating income	29,285	59,181	36,385	46,288	30,535	36,790	12,924	6,040	—	257,428
Operating expenses	(5,664)	(18,093)	(12,888)	(18,374)	(18,416)	(19,574)	(9,647)	(2,004)	—	(104,660)
Impairment losses on:										
Loans and advances to customers	209	(6,050)	(5,349)	(8,241)	(5,013)	(5,147)	(2,711)	(759)	—	(33,061)
Others	(3,142)	(130)	(128)	448	(209)	(456)	(481)	(247)	—	(4,345)
Operating profit	20,688	34,908	18,020	20,121	6,897	11,613	85	3,030	—	115,362
Share of profits and losses of associates	6	—	—	—	—	—	—	10	—	16
Profit before tax	20,694	34,908	18,020	20,121	6,897	11,613	85	3,040	—	115,378
Income tax expense										(33,124)
Profit for the year										82,254
Other segment information:										
Depreciation	892	1,346	1,032	1,420	1,335	1,417	814	62	—	8,318
Amortisation	347	192	74	124	211	164	56	6	—	1,174
Capital expenditure	1,453	1,949	1,074	1,650	1,308	1,416	431	135	—	9,416
As at 31 December 2007										
Segment assets	4,575,914	1,754,819	1,115,718	2,083,118	1,022,925	1,089,117	539,545	251,786	(3,755,235)	8,677,707
Investments in associates	—	—	—	—	—	—	—	172	—	172
Unallocated assets										5,833
Total assets										8,683,712
Segment liabilities	4,296,692	1,687,573	1,081,279	2,034,682	987,909	1,049,693	522,089	201,349	(3,755,235)	8,106,031
Unallocated liabilities										34,005
Total liabilities										8,140,036
Other segment information:										
Credit commitments	132,988	188,336	69,492	161,591	49,155	56,028	13,029	119,068	—	789,687

10.4.15 Commitments and Contingent Liabilities

(a) Capital commitments

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

	2008	2007
Authorised, but not contracted for	1,687	2,212
Contracted, but not provided for	1,658	45,943
	<u>3,345</u>	<u>48,155</u>

As at 31 December 2007, the Group entered into agreements in relation to the acquisition of equity interests in subsidiaries and an associate at a total consideration of approximately RMB45,035 million, which have been completed during the year. Such commitments were included in the line of contracted, but not provided for as shown above.

(b) Operating lease commitments

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

	2008	2007
Within one year	2,146	1,635
After one year but not more than five years	5,178	3,741
After five years	1,658	1,503
	<u>8,982</u>	<u>6,879</u>

(c) Credit commitments

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

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

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

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

	2008	2007
Letters of credit issued	113,253	111,254
Guarantees issued	217,071	191,748
Acceptances	206,632	155,073
Loan commitments with original maturity of:		
Not more than one year	144,585	99,848
More than one year	94,102	125,628
Undrawn credit card limit	160,830	106,136
	<u>936,473</u>	<u>789,687</u>
	2008	2007
Credit risk weighted amounts of credit commitments	<u>385,049</u>	<u>384,545</u>

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

(d) Legal proceedings

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

	2008	2007
Claimed amounts	<u>3,292</u>	<u>2,999</u>

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

(e) Redemption commitments of government bonds

As an underwriting agent of the Government, the Bank underwrites certain PRC government bonds and sells the bonds to the general public, in which the Bank is obliged to redeem these bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds plus any interest accrued up to the redemption date. As at 31 December 2008, the Bank had underwritten and sold bonds with an accumulated amount of RMB151,345 million (2007: RMB156,718 million) to the general public, and these government bonds have not yet matured nor been redeemed. The directors expect that the amount of redemption of these government bonds through the Bank prior to maturity will not be material.

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

(f) Underwriting obligations

At the balance sheet date, the unexpired underwriting obligations are as follows:

	2008	2007
Underwriting obligations	<u>1,000</u>	<u>7,500</u>

10.4.16 Comparative Amounts

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

11. Issue of Results Announcement and Annual Report

This Results Announcement will be released on HKExnews website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the website of the Bank (www.icbc.com.cn, www.icbc-ltd.com) simultaneously. The 2008 Annual Report prepared in accordance with IFRSs will be released on the HKExnews website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Bank (www.icbc.com.cn, www.icbc-ltd.com) and will be despatched to the shareholders of H shares of the Bank. The 2008 Annual Report and its abstract prepared in accordance with the CASs will be released simultaneously on the website of the Shanghai Stock Exchange (www.sse.com.cn) and the Bank (www.icbc.com.cn, www.icbc-ltd.com).

This Results Announcement has been prepared in both Chinese and English languages. In case of any discrepancy between the two versions, the Chinese version shall prevail.

By the order of
The Board of Directors of
Industrial and Commercial Bank of China Limited

25 March 2009

As at the date of this announcement, the board of directors comprises Mr. JIANG Jianqing, Mr. YANG Kaisheng, Mr. ZHANG Furong and Mr. NIU Ximing as executive directors, Mr. HUAN Huiwu, Mr. GAO Jianhong, Ms. LI Chunxiang, Mr. LI Jun, Mr. LI Xiwen, Mr. WEI Fusheng and Mr. Christopher A. COLE as non-executive directors and Mr. LEUNG Kam Chung, Antony, Mr. QIAN Yingyi and Mr. XU Shanda and Mr. WONG Kwong Shing, Frank as independent non-executive directors.