



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 Interim Results Announcement

The Board of Directors of Industrial and Commercial Bank of China Limited (the “Bank”) is pleased to announce the unaudited interim results of the Bank and its subsidiaries (the “Group”) for six months ended 30 June 2008. The Board of Directors and the Audit Committee of the Board of Directors of the Bank have reviewed and confirmed the unaudited interim 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 undertake that the information in this announcement contains no false presentations, misleading statements or material omissions; and agree to assume individual and joint and several liabilities for the authenticity, accuracy and completeness of the information contained in this announcement.

The 2008 Interim Report of the Bank and the results announcement have been considered and approved at the 39th meeting of the first session of the Board of Directors on 21 August 2008. All directors were present at the meeting.

The 2008 interim financial statements prepared by the Bank in accordance with the Chinese Accounting Standards (“CASs”) and the International Financial Reporting Standards (“IFRSs”) have been reviewed by Ernst & Young Hua Ming and Ernst & Young in accordance with the Chinese and international standards on review engagements, respectively.

**The Board of Directors of
Industrial and Commercial Bank of China Limited**

21 August 2008

Mr. Jiang Jianqing, Legal Representative of the Bank, Mr. Yang Kaisheng, person in charge of the financial affairs of the Bank, and Mr. Shen Rujun, person in charge of the financial and accounting department of the Bank, hereby warrant and guarantee that the financial statements contained in the Interim Report are authentic and complete.

2. Corporate Information

2.1 Basic Information

Stock name	工商银行 (A shares)	ICBC (H shares)
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	100032	
Internet website	www.icbc.com.cn, www.icbc-ltd.com	
E-mail	ir@icbc.com.cn	

2.2 Contacts

Secretary to the Board

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3. Financial Highlights

(Financial data and indicators in this interim 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

	January – June 2008	January – June 2007	January – December 2007
Operating Results (in RMB millions)			
Net interest income	131,785	102,209	224,465
Net fee and commission income ⁽¹⁾	24,480	16,537	38,359
Operating income ⁽¹⁾	154,956	117,589	257,428
Allowance for impairment losses	18,315	15,401	37,406
Operating expenses ⁽¹⁾	53,193	43,592	104,660
Operating profit	83,448	58,596	115,362
Profit before tax	84,411	58,603	115,378
Profit after tax	64,879	41,390	82,254
Net profit attributable to equity holders of the parent company	64,531	41,036	81,520
Net cash flow generated from operating activities	196,132	300,979	296,129
Per share data (in RMB)			
Basic earnings per share	0.19	0.12	0.24
Diluted earnings per share	0.19	0.12	0.24
Net cash flow per share from operating activities	<u>0.59</u>	<u>0.90</u>	<u>0.89</u>
	30 June 2008	31 December 2007	31 December 2006
Balance sheet items (in RMB millions)			
Total assets	9,399,384	8,683,712	7,508,751
Total loans and advances to customers	4,355,365	4,073,229	3,631,171
Allowance for impairment losses on loans and advances	122,047	115,687	97,193
Investment in securities, net	3,193,753	3,107,328	2,860,798
Total liabilities	8,845,618	8,140,036	7,037,750
Due to customers	7,538,748	6,898,413	6,326,390
Due to banks and other financial institutions	867,292	805,174	400,318
Equity attributable to equity holders of the parent company	549,431	538,371	466,464
Net asset per share ⁽²⁾ (in RMB)	1.64	1.61	1.40
Net capital base	570,138	576,741	530,805
Net core capital base	472,708	484,085	462,019
Supplementary capital	107,767	94,648	69,650
Risk-weighted assets ⁽³⁾	<u>4,575,361</u>	<u>4,405,345</u>	<u>3,779,170</u>

Notes: (1) The comparative data are reclassified to conform with current period's requirements on presentation.

(2) Calculated by dividing 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.

(3) Being risk-weighted assets and market risk capital adjustment. Please refer to "Discussion and Analysis — Capital Adequacy Ratio".

3.2 Financial Indicators

	January – June 2008	January – June 2007	January – December 2007
Profitability (%)			
Return on average total assets ⁽¹⁾	1.44*	1.05*	1.02
Return on weighted average equity ⁽²⁾	22.80*	16.93*	16.23
Net interest spread ⁽³⁾	2.88*	2.54*	2.67
Net interest margin ⁽⁴⁾	3.01*	2.65*	2.80
Return on risk-weighted assets ⁽⁵⁾	2.89*	2.12*	2.01
Ratio of net fee and commission income to operating income	15.80	14.06	14.90
Cost-to-income ratio ⁽⁶⁾	28.46	31.43	35.02
	30 June 2008	31 December 2007	31 December 2006
Asset quality (%)			
Non-performing loan ratio ⁽⁷⁾	2.41	2.74	3.79
Allowance to non-performing loans ⁽⁸⁾	116.08	103.50	70.56
Total loan reserve ratio ⁽⁹⁾	2.80	2.84	2.68
Capital adequacy (%)			
Core capital adequacy ratio ⁽¹⁰⁾	10.33	10.99	12.23
Capital adequacy ratio ⁽¹⁰⁾	12.46	13.09	14.05
Total equity to total assets ratio	5.89	6.26	6.27
Risk-weighted assets to total assets ratio	48.68	50.73	50.33

Notes: * indicates annualized ratios.

- (1) Calculated by dividing the profit after tax by the average balance of total assets at the beginning and the end of the reporting period.
- (2) Calculated by dividing profit attributable to the equity holders of the parent company by the average balance of equity attributable to equity holders of the parent company, which is calculated 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” (2007 revision) issued by China Securities Regulatory Commission (“CSRC”).
- (3) Calculated by the spread between average yield on average balance of interest-generating assets and average cost on average balance of interest-bearing liabilities.
- (4) Calculated by dividing net interest income by average balance of interest-generating assets.
- (5) Calculated by dividing profit after tax by the average of risk-weighted assets and market risk capital adjustment at the beginning and the end of the reporting period.
- (6) Calculated by dividing operating expense (less business tax and surcharges) by operating income.
- (7) Calculated by dividing the balance of non-performing loans by total balance of loans and advances to customers.
- (8) Calculated by dividing the balance of allowance for impairment losses on loans and advances by total balance of non-performing loans.
- (9) Calculated by dividing the balance of allowance for impairment losses on loans and advances by total balance of loans and advances to customers.
- (10) Please refer to “Discussion and Analysis: Capital Adequacy Ratio”.

3.3 Other Financial Indicators

		Regulatory Criteria	30 June 2008	31 December 2007	31 December 2006
Liquidity ratio (%)⁽²⁾	RMB	≥ 25.0	29.0	26.8	48.9
	Foreign currency	≥ 25.0	83.9	97.9	84.8
Loan-to-deposit ratio (%)⁽³⁾	RMB and foreign currency	≤ 75.0	58.6	56.3	51.4
Borrowing and Lending Ratio (%)	RMB Borrowing Ratio ⁽⁴⁾		0.3	0.7	0.0
	RMB Lending Ratio ⁽⁵⁾		0.4	0.3	0.2
Percentage of loans to single largest customer (%)⁽⁶⁾		≤ 10.0	3.2	3.1	3.1
Percentage of loans to top 10 customers (%)⁽⁷⁾			21.1	21.1	21.7

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 balance of current assets by the balance of current liabilities. The liquidity ratios as at 30 June 2008 and 31 December 2007 are calculated in accordance with the “Circular Concerning the Formal Operation of the Off-site Regulatory Information System in 2007” issued by China Banking Regulatory Commission (“CBRC”) which narrowed the scope of current assets and current liabilities.

(3) Calculated by dividing loan balance by deposit balance. Deposits exclude fiscal deposits and outward remittance, and loans as of 31 December 2007 and 31 December 2006 exclude discounted bills.

(4) It represents the ratio for domestic branches, and is calculated by dividing RMB placements from banks and other financial institutions by RMB deposit balance.

(5) It represents the ratio for domestic branches, and is calculated by dividing net RMB placements with banks and other financial institutions by RMB deposit balance.

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

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

3.4 Reconciliation of 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.

In RMB millions

	Six months ended 30 June	
	2008	2007
Profit for the period attributable to equity holders of the parent company under CASs	64,531	40,844
Recognition of revaluation surplus on disposed assets	—	192
Profit for the period attributable to equity holders of the parent company under IFRSs	<u>64,531</u>	<u>41,036</u>
	30 June	31 December
	2008	2007
Equity attributable to equity holders of the parent company under CASs	550,007	538,947
Reversal of revaluation surplus	(576)	(576)
Equity attributable to equity holders of the parent company under IFRSs	<u>549,431</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. Under IFRSs, certain assets (including equity investments, repossessed assets and intangible assets, etc.) were carried at cost and the revaluation surplus was reversed. Upon disposal of such assets, adjustments on recognition of revaluation surplus 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.

4. Business Overview and Prospect

The economic and financial environment at home and abroad experienced fundamental changes in the first half of 2008. In response to challenges and during its development in pursuit of transformation, the overall development of the Bank showed "5 Continued" pronounced characteristics.

Continued high growth of operating efficiency. In the first half of 2008, the Bank continued its momentum of rapid growth seen in the past five years, with profit after tax of the Group

increased by RMB23,489 million or 56.8% year on year to RMB64,879 million. Growth was recorded for all business lines, of which net interest income increased by 28.9% year on year to RMB131,785 million and non-interest income climbed 50.7% year on year to RMB23,171 million. The growth rate of net fee and commission income was 19.1 percentage points higher than that of net interest income. The improved operation structure was a key catalyst for continued rapid growth of the Bank's profit.

Continued enhancement of market competitiveness. The deposit business grew stably in fierce competition. The increase in total amounts due to customers and due to banks and other financial institutions reached RMB715,134 million or 9.4%. The income from intermediary business maintained its top position in the industry. The strengths in settlement, agency and other conventional business lines were further consolidated. In response to capital market changes, the Bank sped up its development of wealth management business, achieving an issue volume of RMB831.3 billion, 5.4 times that for the same period last year. The number and consumption of bank cards issued were 217 million and RMB380.2 billion, respectively, of which the credit cards issued exceeded 33 million in number and RMB110 billion in consumption, strengthening the Bank's leading position. E-banking reported a trading volume of RMB68 trillion, an increase of 58.5% year on year and far ahead of other banks in China. Off-counter businesses accounted for 39.5% of the Bank's total business volume, up 2.3 percentage points. The assets in custody amounted to RMB1.2 trillion, maintaining the leading position in the industry. Income from investment banking services has become a major component of intermediary income. RMB8 billion of credit-related asset securitization products were issued, which was a record high in the domestic market. The Bank also ranked first in the underwriting of commercial papers and mid-term notes. Financial leasing business and full-license annuity business have also given the Bank a first-mover's position in the domestic market.

Continued stable and sound development of credit business. Pursuing prudent credit policies and adhering to the State's macro-economic policies and inherent requirements of transformation, the Bank controlled credit growth rationally, focused on credit restructuring, and raised return on credit business by developing high-quality credit market through diverse channels and big volume business. RMB and foreign currency loans increased by RMB282,136 million or 6.9% in the first half of 2008. The Bank analyzed the macro-economic trends, improved sensitivity and predictability in credit risk prevention, and endeavored to control risks and maintain stable quality of credit business in the changing economic environment. The Bank adjusted credit policies for relevant industries and placed credit limit control over certain industries in a timely manner. Under the management guideline of giving equal emphasis to preventing and controlling both visible and invisible risks, the Bank accelerated recovery and disposal of non-performing loans ("NPLs") and strengthened monitoring of and withdrawal from loans with potential risks. The NPL balance decreased by RMB6,638 million and the NPL ratio dropped by 0.33 percentage point to 2.41%.

Continued enhancement of basic work for risk management. The Bank proactively improved the comprehensive risk management system and proceeded faster with enhancing its capability of comprehensive risk management. The comprehensive risk management framework and reporting mechanism were further refined. Risk management assessment measures and risk limit management rules were developed. Results in Non-retail Internal Rating-Based (IRB) System Projects were put into service and Retail IRB System Projects were completed. The establishment of the core system of market risk management was expedited and advanced measurement approaches (AMA) projects for operational risks commenced. The measurement standard of three major risks maintained a leading position in the banking industry. The Bank pursued persistently the principle of prudent provision and made sufficient provisions in strict accordance with accounting standards, in order to maintain a strong capability to offset risks. At the end of June, the coverage of allowance for NPLs increased by 12.58 percentage points to 116.08%. The Bank held a small number of bonds related to US sub-prime loans, and provisions set aside fully covered the risk of bond impairment.

Continued improvement in customer service. The Bank emphasized the significance of customer services in its development strategy. The Bank highlighted the concepts of “customer oriented” and “services create value” and continuously improved customer experience. In addition to re-engineering of the personal banking process last year, optimization of corporate banking process was launched this year, and inter-region centralized processing of business, remote authorization and supervision center pilot reform were commenced, thereby continuously enhancing customer service efficiency and intensifying management capability. Adapting to increasing demands for diverse services, the Bank leveraged advanced IT platform to step up product innovation and rolled out almost 200 new products on a cumulative basis. Further efforts were made in construction of business outlets, with outlets upgraded and service mode reformed. At the end of June, there were about 2,000 VIP service centers and wealth management centers. Private banking services were launched in March for high net worth customers. Improvements were also made in service functionality of many general outlets. The building of account manager teams was strengthened. The Bank has the largest number of Associate Financial Planners (AFPs) and Certified Financial Planners (CFPs) in the industry, and the account manager team that provides off-premises marketing services is growing quickly.

2008 is set to be an extraordinary year. In response to various challenges in the second half of the year, the Bank will continue to promote operation transformation and business innovation and further enhance market competitiveness and risk control capability, with a view to maintaining the momentum of stable and sound development in all business lines and rewarding investors with handsome performance.

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

5.1 Changes in Share Capital

DETAILS OF CHANGES IN SHARE CAPITAL

Unit: Share

	As at 31 December 2007		Increase/ decrease in the reporting period (+, -) Expiration of the Lock-up Period	As at 30 June 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” mentioned in this table refer to the shares held by National Council for Social Security Fund (“SSF”) and A share strategic investors. “Shares held by foreign investors” mentioned in this table refer to the shares held by overseas strategic investors, including The Goldman Sachs Group, Inc. (“Goldman Sachs”), Allianz Group (“Allianz”) and American Express Company (“American Express”). “Foreign shares listed overseas” mentioned in this table, namely H shares, are within the same meaning as defined in “No. 5 Standards on the Content and Format of Information Disclosure of Companies with Public Offerings — Content and Format of the Report of Change in Corporate Shareholding” of CSRC (Revised in 2007).

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

DETAILS OF CHANGES IN THE SHARES SUBJECT TO RESTRICTION ON SALES*Unit: Share*

Name of shareholders	Number of shares subject to restriction on sales at the beginning of the period	Number of shares released from restriction on sales during the period	Increase in the number of shares subject to restriction on sales during the period	Number of shares subject to restriction on sales at the end of the period	Reason for restriction on sales	Date on which shares become tradable
A share strategic investors	2,884,610,000	2,884,610,000	0	0	Issuance of shares subject to restriction on sales	27 April 2008
Total	<u>2,884,610,000</u>	<u>2,884,610,000</u>	<u>0</u>	<u>0</u>	—	—

DATES ON WHICH SHARES SUBJECT TO RESTRICTION ON SALES BECOME TRADABLE*Unit: Share*

Date	Number of shares tradable at the expiration of the lock-up period	Outstanding number of shares subject to restriction on sales	Outstanding number of shares not subject to restriction on sales	Remarks
28 April 2009	12,092,368,700	262,206,866,326	59,719,615,000	Goldman Sachs, Allianz, American Express
29 June 2009	7,051,074,779	255,155,791,547	71,811,983,700	SSF
20 October 2009	19,143,443,483	236,012,348,064	78,863,058,479	Goldman Sachs, Allianz, American Express, SSF
27 October 2009	236,012,348,064	0	98,006,501,962	A shares held by MOF and Huijin

The A shares held by MOF and Huijin will not be subject to the above-mentioned lock-up period after receiving approval of conversion into H shares from relevant authorities.

PARTICULARS OF HOLDERS OF SHARES SUBJECT TO RESTRICTION ON SALES

Unit: Share

No.	Name of holders of shares subject to restriction on sales	Type of shares	Shares subject to restriction on sales	Date on which shares become tradable	Number of additional tradable shares
1	MOF	A share	118,006,174,032	27 October 2009	118,006,174,032
2	Huijin	A share	118,006,174,032	27 October 2009	118,006,174,032
3	Goldman Sachs	H share	16,476,014,155	28 April 2009 20 October 2009	8,238,007,077 8,238,007,078
4	SSF	H share	14,102,149,559	29 June 2009 20 October 2009	7,051,074,779 7,051,074,780
5	DRESDNER BANK LUXEMBOURG S.A. ⁽¹⁾	H share	6,432,601,015	28 April 2009 20 October 2009	3,216,300,507 3,216,300,508
6	American Express	H share	1,276,122,233	28 April 2009 20 October 2009	638,061,116 638,061,117

Note: (1) DRESDNER BANK LUXEMBOURG S.A. is a wholly owned subsidiary of Allianz, through which Allianz holds the shares of the Bank.

5.2 Number of Shareholders and Particulars of Shareholding of Substantial Shareholders

- Number of shareholders

As at the end of the reporting period, the Bank had a total number of 1,670,411 shareholders, including 176,453 holders of H shares and 1,493,958 holders of A shares.

- Particulars of shareholding of the top 10 shareholders of the Bank (based on the number of shares set out in the Bank's register of shareholders maintained at the H share registrar)

NUMBER OF SHAREHOLDERS AND PARTICULARS OF SHAREHOLDING

Unit: Share

Total number of shareholders 1,670,411 (Holders of A shares and H shares registered as at 30 June 2008)

Particulars of shareholding of the top 10 shareholders (The following data is based on the shareholders on the register of shareholders as at 30 June 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
MOF	State-owned shares	A share	35.3	118,006,174,032	118,006,174,032	None
Huijin	State-owned shares	A share	35.3	118,006,174,032	118,006,174,032	None
HKSCC NOMINEES LIMITED	Foreign investment	H share	13.2	44,225,344,208	0	Unknown
Goldman Sachs	Foreign investment	H share	4.9	16,476,014,155	16,476,014,155	Unknown
SSF	Shares held by other domestic entities	H share	4.2	14,102,149,559	14,102,149,559	Unknown
DRESDNER BANK LUXEMBOURG S.A. ⁽¹⁾	Foreign investment	H share	1.9	6,432,601,015	6,432,601,015	Unknown
American Express	Foreign investment	H share	0.4	1,276,122,233	1,276,122,233	Unknown
China Life Insurance (Group) Company — traditional — ordinary insurance products	Shares held by other domestic entities	A share	0.2	695,027,367	0	None
China Life Insurance Company Limited — traditional — ordinary insurance products — 005L — CT001 Hu	Shares held by other domestic entities	A share	0.2	648,476,278	0	None
China Huarong Asset Management Corporation	Shares held by other domestic entities	A share	0.1	480,769,000	0	None

Notes: (1) DRESDNER BANK LUXEMBOURG S.A. is a wholly owned subsidiary of Allianz, through which Allianz holds the shares of 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.

PARTICULARS OF SHAREHOLDING OF THE TOP 10 SHAREHOLDERS NOT SUBJECT TO RESTRICTION ON SALES (THE FOLLOWING DATA IS BASED ON THE REGISTER OF SHAREHOLDERS AS OF 30 JUNE 2008)

Unit: Share

Name of shareholder	Shares not subject to restriction on sales	Type of shares
HKSCC Nominees Limited	44,225,344,208	H share
China Life Insurance (Group) Company — traditional — ordinary insurance products	695,027,367	A share
China Life Insurance Company Limited — traditional — ordinary insurance products — 005L — CT001 Hu	648,476,278	A share
China Huarong Asset Management Corporation	480,769,000	A share
China Pacific Life Insurance Company Limited — traditional — ordinary insurance products	296,497,961	A share
China Huaneng Group	249,500,000	A share
China Life Insurance Company Limited — dividend distribution — personal dividend — 005L — FH002 Hu	216,980,607	A share
E-Fund 50 Index Securities Investment Fund	215,074,397	A share
Boshi Theme Industry Stock Fund	202,999,801	A share
Fortune SGAM Industry Selected Shares Securities Investment Fund	184,026,777	A share

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.

5.3 Changes of the Substantial Shareholders and De Facto Controller of the Bank

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

5.4 Interests and Short Positions of Substantial Shareholders and Other Persons

Substantial shareholders and persons having interests or short positions that are disclosable pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance

As of 30 June 2008, the Bank had been informed by the following persons that they had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the Hong Kong Securities and Futures Ordinance:

Holders of A shares

Name of substantial shareholder	Capacity	Number of A Shares Held	Nature of Interest	Approximate Percentage of Issued A Shares (%)	Approximate Percentage of Total Issued Shares (%)
MOF	Beneficial owner	118,006,174,032	Long position	47.02	35.33
Huijin	Beneficial owner	118,006,174,032	Long position	47.02	35.33

Holders of H shares

Name of substantial shareholder	Capacity	Number of H Shares Held	Nature of Interest	Approximate Percentage of Issued H Shares (%)	Approximate Percentage of Total Issued Shares (%)
SSF ⁽¹⁾	Beneficial owner	16,597,455,559	Long position	19.98	4.97
Goldman Sachs ⁽²⁾	Beneficial owner	16,476,014,155	Long position		
	Interest of controlled corporations	369,101,477	Long position		
	Total	16,845,115,632		20.28	5.04
Allianz ⁽³⁾	Interest of controlled corporations	7,336,585,122	Long position	8.83	2.20
	Interest of controlled corporations	696,401,107	Short position	0.84	0.21

- Notes: (1) According to the register of shareholders as of 30 June 2008, SSF held 14,102,149,559 shares in the Bank.
(2) According to the register of shareholders as of 30 June 2008, Goldman Sachs held 16,476,014,155 shares in the Bank.
(3) According to the register of shareholders as of 30 June 2008, DRESNER BANK LUXEMBOURG S.A. (a wholly owned subsidiary of Allianz, through which Allianz holds the shares of the Bank) held 6,432,601,015 shares in the Bank.

6. Directors, Supervisors and Senior Management

The Board of Directors of the Bank comprises 15 directors, including four executive directors, namely Mr. Jiang Jianqing, Mr. Yang Kaisheng, Mr. Zhang Furong and Mr. Niu Ximing, seven non-executive directors, namely Mr. Fu Zhongjun, Mr. Kang Xuejun, Mr. Song Zhigang, Mr. Wang Wenyan, Ms. Zhao Haiying, Mr. Zhong Jian'an and Mr. Christopher A. Cole, and four independent non-executive directors, namely Mr. Leung Kam Chung, Antony, Mr. John L. Thornton, Mr. Qian Yingyi and Mr. Xu Shanda.

The Board of Supervisors of the Bank consists of five members: including two supervisors representing the shareholders, namely Mr. Zhao Lin and Ms. Wang Chixi, two external supervisors, namely Mr. Wang Daocheng and Mr. Miao Gengshu, and an employee supervisor Mr. Zhang Wei.

The senior management of the Bank consists of nine members: Mr. Yang Kaisheng, Mr. Zhang Furong, Mr. Niu Ximing, Ms. Wang Lili, Mr. Li Xiaopeng, Mr. Liu Lixian, Mr. Yi Huiman, Mr. Wei Guoxiong and Mr. Gu Shu.

During the reporting period, the Bank did not implement share incentives, and none of the incumbent directors, supervisors, and members of the senior management held shares, share options, or were granted restricted shares of the Bank, which remained unchanged during the reporting period.

7. Discussion and Analysis

7.1 Income Statement Analysis

In the first half of 2008, in response to the changes in the external operating environment, the Bank underwent business transformation, enhanced cost control with continuous optimization of income structure, and achieved continuous and rapid growth of profit after tax. Profit after tax reached RMB64,879 million, representing an increase of RMB23,489 million or 56.8% over the same period of the previous year. It was mainly due to an increase of RMB37,367 million or 31.8% in the operating income, higher than the increase of 22.0% in operating expense and 18.9% in allowance for impairment losses, of which, net interest income increased by 28.9% and the non-interest income surged by 50.7%. The application of new income tax rate also contributed to the remarkable increase in the profit after tax of the Bank.

Net Interest Income

Net interest income contributed a significant part of the Bank's operating income. Net interest income reached RMB131,785 million in the first half of 2008, representing an increase of 28.9% over the same period in the previous year and accounted for 85.0% of the operating income. Interest income amounted to RMB215,011 million in aggregate, of which the interest income from loans and advances to customers, interest income from investment in securities and other interest income accounted for 69.0%, 24.0% and 7.0%, respectively.

The table below sets out the average balances of interest-generating assets and interest-bearing liabilities⁽¹⁾, interest income and expenses, and average yield and cost, respectively. The average yield and cost has been annualized.

In RMB millions, except for percentages

Item	January – June 2008			January – June 2007		
	Average balance	Interest income/expense	Average yield/cost (%)	Average balance	Interest income/expense	Average yield/cost (%)
Assets						
Loans and advances to customers	4,258,715	148,417	6.97	3,785,205	109,925	5.81
Investment in securities:	3,119,784	51,524	3.30	2,947,633	42,821	2.91
Investment securities not related to restructuring	2,093,017	40,056	3.83	1,896,767	30,969	3.27
Investment securities related to restructuring ⁽²⁾	1,026,767	11,468	2.23	1,050,866	11,852	2.26
Due from central banks	1,142,757	10,390	1.82	731,125	6,397	1.75
Due from banks and other financial institutions ⁽³⁾	242,058	4,680	3.87	243,340	4,655	3.83
Total interest-generating assets	8,763,314	215,011	4.91	7,707,303	163,798	4.25
Allowance for impairment losses	(122,434)			(104,892)		
Non-interest-generating assets	452,587			349,099		
Total assets	9,093,467			7,951,510		
Liabilities						
Deposits	7,044,478	73,231	2.08	6,437,735	54,255	1.69
Due to banks and other financial institutions ⁽³⁾	1,103,026	9,378	1.70	722,411	6,761	1.87
Subordinated bonds	35,000	617	3.53	35,000	573	3.27
Total interest-bearing liabilities	8,182,504	83,226	2.03	7,195,146	61,589	1.71
Non-interest-bearing liabilities	211,354			232,843		
Total liabilities	8,393,858			7,427,989		
Net interest income		131,785			102,209	
Net interest spread			2.88			2.54
Net interest margin			3.01			2.65

Notes: (1) The average balances of interest-generating assets and interest-bearing liabilities represent the daily average balances. The average balances of non-interest-generating assets, non-interest-bearing liabilities and allowance for impairment losses represent the average balances as of the beginning and end of the reporting period.

(2) Investment securities related to restructuring include 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. Due to banks and other financial institutions includes the amount of repurchase agreements.

Net Interest Spread and Net Interest Margin

In the first half of 2008, the return on assets has been further improved as a result of the Bank seizing market opportunities, proactively adjusting and optimizing the structure of assets, improving interest rate management and enhancing bargaining power in loan transactions in response to changes in the domestic and global economic environment. In addition, the Bank achieved further improvement in the profitability of its asset and liability operations by taking a variety of measures to expand its low-cost liability operations by promoting deposit and adjusting deposit mix, which effectively mitigated the negative impact from the cumulative effect of the tightened monetary policy. These enabled higher rise in the return on assets than in the liability cost. The net interest spread and net interest margin stood at 2.88% and 3.01%, representing an increase of 34 and 36 basis points, respectively, as compared to the first half of the previous year, and an increase of 21 basis points for both indicators as compared to 2007.

Due to the re-pricing of loans, the enhancement in interest rate management and bargaining power plus the improvement in loan quality and loan mix, the average yield of loans to customers increased from 5.81% in the first half of 2007 to 6.97% in the first half of 2008. The upturn in the yield curve of Renminbi bond market and further optimization of the investment portfolio increased the average yield on investment in securities from 2.91% in the first half of 2007 to 3.30% in the first half year of 2008. As a result of the above, the average yield of interest-generating assets increased by 66 basis points to 4.91%. Due to the cumulative effect of interest rate rises and the increase of deposits and time deposit expansion caused by capital market volatility, the average cost of deposits from customers increased by 39 basis points from 1.69% in the first half of 2007 to 2.08% in the first half of 2008. However, the average cost of interest-bearing liabilities increased by 32 basis points to 2.03% as a result of the decrease in average cost of the amounts due to banks and other financial institutions by 17 basis points from 1.87% in the first half of 2007 to 1.70% in the first half of 2008, which partially offset the rise in the cost of deposits. As the growth in average yield on interest-generating assets far exceeded that of average cost of interest-bearing liabilities, the net interest spread and net interest margin further increased.

The table below summarizes the changes in yield on interest-generating assets, cost of interest-bearing liabilities, net interest spread and net interest margin:

Item	<i>Percentages</i>		
	January – June 2008	January – June 2007	January – December 2007
Yield of interest-generating assets	4.91	4.25	4.45
Cost of interest-bearing liabilities	2.03	1.71	1.78
Net interest spread	2.88	2.54	2.67
Net interest margin	3.01	2.65	2.80

Interest Income

Interest income amounted to RMB215,011 million, representing an increase of RMB51,213 million or 31.3% over the same period in the previous year. The aggregate growth of interest income from loans and advances to customers and investment in securities contributed to 92.2% of the total increase in interest income. The rise in interest income was mainly attributable to the increase in average balances and average yield of loans and advances to customers and investment in securities.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers contributed the majority of the Bank's interest income. The interest income from loans and advances to customers was RMB148,417 million in the first half of 2008, representing an increase of RMB38,492 million or 35.0%. Such growth is mainly attributable to the rise in the average yield of loans and advances to customers from 5.81% in the first half of 2007 to 6.97% in the first half of 2008 and the increase in average loan balance. The rise in average yield was mainly due to: (1) the cumulative effect of interest rate rises, i.e. 6 times benchmark interest rate hike for loans announced by The People's Bank of China ("PBOC") during 2007, and the benchmark interest rate for one-year Renminbi loans increased by 1.35 percentage points from early 2007 to 7.47% in early 2008; (2) the re-pricing of loans, i.e. the 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) improved management of loan interest rates and increased bargaining power of the Bank, which led to the moderate rise in loan floating rate margin. The average balance of loans and advances to customers increased by RMB473,510 million or 12.5% over the same period in the previous year.

Analysis of Average Yield from Loans and Advances to Customers by Business Lines

In RMB millions, except for percentages

Item	January – June 2008			January – June 2007		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	3,094,302	108,880	7.04	2,646,437	80,942	6.12
Discounted bills	214,155	8,012	7.48	401,406	6,559	3.27
Personal loans	779,637	27,730	7.11	614,932	19,088	6.21
Overseas and others	170,621	3,795	4.45	122,430	3,336	5.45
Total loans and advances to customers	<u>4,258,715</u>	<u>148,417</u>	<u>6.97</u>	<u>3,785,205</u>	<u>109,925</u>	<u>5.81</u>

Interest Income from Investment in Securities

Interest income from investment in securities was the second largest component of the Bank's interest income. In the first half of 2008, interest income from investment in securities increased by RMB8,703 million or 20.3% to RMB51,524 million, of which interest income from non-restructuring related securities investments increased by RMB9,087 million. This was mainly because the average balance increased and the average yield rose from 3.27% in the first half of 2007 to 3.83%. Such growth of average yield was mainly due to: (1) the upward shift of yield curve in the Renminbi bond market led to a significant growth of return from new investments; (2) the 6 times benchmark interest rates hike announced by PBOC in 2007 resulted in a growth of bond yields that were set based on 1-year time deposit rate; (3) part of the low-yield bonds matured in the first half of 2008, while the reinvestment in Renminbi bonds generated a higher yields; and (4) the Bank adjusted investment strategy and optimized investment portfolio and currency composition in response to the macro-economic environment and the financial market trend. Interest income from investment in securities related to restructuring decreased by RMB384 million or 3.2%. This was mainly because MOF settled debts of RMB21,270 million relating to the MOF receivables during the second half of 2007, thereby resulting in a decrease in the average balance.

Interest Income from Due from Central Banks

The amounts due from central banks principally included the mandatory reserve and excess reserve. The interest income from amounts due from central banks amounted to RMB10,390 million for the first half of 2008, representing an increase of RMB3,993 million or 62.4% as compared to the first half of 2007. It was mainly attributable to: (1) the increase in the customer deposit balance and the rises in mandatory deposit reserve ratio by PBOC for 15 times since 2007, which led to the increase in average balance of amount due from central banks by RMB411,632 million or 56.3%; and (2) the increase in average yield from 1.75% in the first half of 2007 to 1.82% in the first half of 2008, which was mainly attributable to higher proportion of higher-yield mandatory reserve in the amounts due from central banks.

Interest Income from Due from Banks and Other Financial Institutions

Interest income from amounts due from banks and other financial institutions rose by RMB25 million or 0.5% to RMB4,680 million, mainly because the average yield increased from 3.83% in the first half of 2007 to 3.87% in the first half of 2008. The increase was partially offset by slight decrease in the average balance. Though the yield on the amounts due from banks dropped due to decrease in London Interbank Offered Rate (LIBOR) and Hong Kong Interbank Offered Rate (HIBOR), the Bank drove up the average yield on amounts due from banks and other financial institutions by 4 basis points by enhancing Renminbi reverse repo operations.

Interest Expense

Interest expense reached RMB83,226 million, representing an increase of 35.1% over the same period in the previous year. It was primarily due to: (1) increase in the average cost of interest-bearing liabilities from 1.71% in 2007 to 2.03%, which resulted from the cumulative effect of hikes in inter-bank money market interest rate, time deposits, and tightening of market liquidity; and (2) increase in the average balance of interest-bearing liabilities by RMB987,358 million or 13.7%.

Interest Expense on Deposits

Deposits have been a major source of the Bank's funding. In the first half of 2008, interest expense on deposits reached RMB73,231 million, representing an increase of RMB18,976 million or 35.0% over the same period in the previous year, and accounted for 88.0% of the total interest expense. The growth was mainly due to an increase in the average balance of deposits and an increase in the average cost from 1.69% in the first half of 2007 to 2.08%. The rise in the average balance and average cost of deposits was primarily attributable to: (1) the cumulative effect of 6 times benchmark interest rates hike for time deposits announced by PBOC during 2007, of which the benchmark interest rate for one-year deposits increased by 1.62 percentage points to 4.14%; and (2) the increase in balances of savings deposits and time deposits as a result of volatile capital market.

Analysis of Average Deposit Cost by Products

In RMB millions, except for percentages

Item	January – June 2008			January – June 2007		
	Average balance	Interest Expense	Average cost (%)	Average balance	Interest Expense	Average cost (%)
Corporate deposits						
Time deposits	1,157,765	18,804	3.25	943,910	11,659	2.47
Demand deposits ⁽¹⁾	<u>2,353,749</u>	<u>12,021</u>	<u>1.02</u>	<u>2,042,428</u>	<u>8,885</u>	<u>0.87</u>
Sub-total	<u>3,511,514</u>	<u>30,825</u>	<u>1.76</u>	<u>2,986,338</u>	<u>20,544</u>	<u>1.38</u>
Personal deposits						
Time deposits	2,205,504	36,400	3.30	2,179,893	27,209	2.50
Demand deposits	<u>1,178,440</u>	<u>4,250</u>	<u>0.72</u>	<u>1,159,748</u>	<u>4,175</u>	<u>0.72</u>
Sub-total	<u>3,383,944</u>	<u>40,650</u>	<u>2.40</u>	<u>3,339,641</u>	<u>31,384</u>	<u>1.88</u>
Overseas deposits	<u>149,020</u>	<u>1,756</u>	<u>2.36</u>	<u>111,756</u>	<u>2,327</u>	<u>4.16</u>
Total deposits	<u>7,044,478</u>	<u>73,231</u>	<u>2.08</u>	<u>6,437,735</u>	<u>54,255</u>	<u>1.69</u>

Note: (1) Includes 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 RMB9,378 million, representing an increase of RMB2,617 million or 38.7% over the same period in the previous year. It was principally because the average balance increased by RMB380,615 million as compared to the first half of 2007. However, the increase was partially offset by the decrease in average interest cost on deposits by 17 basis points from 1.87% to 1.70%. The increase in average balance was mainly attributable to the increase in the amounts due to banks and other financial institutions. Although the growth of the amounts due to banks and other financial institutions slowed down due to adjustment in the capital market in the first half of 2008, the average balance increased remarkably due to capital market development, influx of funds in connection with Initial Public Offerings (IPOs) and the fact that the Bank expanded the third party depository services. The decrease in average cost of deposits was mainly due to: (1) the Bank's proactive efforts for taking low-cost liabilities, driving down the cost of due to banks and other financial institutions as compared to the first half of 2007; and (2) decline in the cost of repo liabilities driven by lower LIBOR in the first half of 2008.

Interest Expense on Subordinated Bonds

Interest expense on subordinated bonds increased by RMB44 million to RMB617 million, with the average interest cost increasing from 3.27% in the first half of 2007 to 3.53%. This was mainly because the coupon rate of some subordinated bonds issued by the Bank in 2005 was based on the 7-day weighted average repo rate in the inter-bank money market, which on average rose slightly from the previous year.

Non-interest Income

Non-interest income contributed significant part to operating income of the Bank in the first half of 2008. Non-interest income reached RMB23,171 million, representing an increase of RMB7,791 million or 50.7% as compared to the first half of 2007. It accounted for 15.0% of the total operating income, where its contribution increased by 1.9 percentage points.

Net fee and commission income grew by 48.0% to RMB24,480 million and contributed to 15.80% of the operating income, representing an increase of 1.74 percentage points as compared to the first half of 2007. The growth indicated the achievements of the Bank's strategy on diversifying the revenue streams by implementing innovative services and developing intermediary businesses. In the first half of 2008, the income from funds agency decreased due to the capital market downturn, whereas the businesses of corporate wealth management, investment banking, asset custody, settlement, clearing and cash management, and guarantees and commitments maintained a rapid growth.

Composition of Net Fee and Commission Income

In RMB millions, except for percentages

Item	January – June 2008	January – June 2007	Increase/ (decrease)	Growth rate (%)
Settlement, clearing and cash management	6,821	4,367	2,454	56.2
Personal wealth management and private banking	6,095	5,939	156	2.6
Investment banking	4,822	2,345	2,477	105.6
Bank card business	3,197	2,477	720	29.1
Corporate wealth management	1,458	486	972	200.0
Asset custody	1,257	439	818	186.3
Guarantees and commitments	1,116	344	772	224.4
Payment agency and commission	406	319	87	27.3
Others	298	494	(196)	-39.7
Fee and commission income	25,470	17,210	8,260	48.0
Less: fee and commission expense	990	673	317	47.1
Net fee and commission income	24,480	16,537	7,943	48.0

Note: The Bank adjusted the grouping of fee and commission income items in 2008, and the new classification better reflected the different product lines of the Bank's fee and commission businesses and enabled a clearer presentation of the results of the Bank's fee and commission businesses.

The income from settlement, clearing and cash management business was RMB6,821 million, representing an increase of RMB2,454 million or 56.2%. The growth was primarily attributable to the increase in income from Renminbi settlement, international settlement and account management businesses.

The income from investment banking business increased by RMB2,477 million or 105.6% to RMB4,822 million, mainly due to the increase in income from investment and financing consultation business, regular financial advisory services and debt underwriting services.

The income from corporate wealth management services reached RMB1,458 million, representing an increase of RMB972 million or 200.0%. The growth was primarily attributable to the increase in the entrusted wealth management business brought by the rapid growth of corporate wealth management products.

The income from asset custody business increased by RMB818 million or 186.3% to RMB1,257 million, mainly due to the sharp increase in the size of assets in custody.

The income from guarantee and commitment business reached RMB1,116 million, representing an increase of RMB772 million or 224.4%, mainly due to the innovation of non-financing guarantees products and the increase in loan commitments.

The income from personal wealth management and private banking services slowly increased to RMB6,095 million. Although the downturn of capital market in the first half of 2008 drove down the income from retail funds agency business, income from personal wealth management products and insurance agency business increased remarkably due to the efforts in developing the range of wealth management products and services to accommodate the market needs.

Other Non-Interest Related Loss

In RMB millions, except for percentages

Item	January – June 2008	January– June 2007	Increase/ (decrease)	Growth rate (%)
Net trading income	1,333	932	401	43.0
Net loss on financial assets and liabilities designated at fair value through profit or loss	(288)	(888)	600	N/A
Net gain/(loss) on financial investment	(869)	161	(1,030)	-639.8
Other operating loss, net	(1,485)	(1,362)	(123)	N/A
Total	<u>(1,309)</u>	<u>(1,157)</u>	<u>(152)</u>	<u>N/A</u>

The other non-interest related loss of RMB1,309 million was mainly attributable to accelerated appreciation of Renminbi in the first half of 2008, and net loss from foreign exchange and foreign exchange rate products stood at RMB2,832 million. The Bank effectively controlled foreign exchange exposure, thus curbed the growth of exchange loss.

Operating Expenses

Operating expenses increased by RMB9,601 million or 22.0% to RMB53,193 million, and cost-to-income ratio continuously dropped by 2.97 percentage points to 28.46%. Among these, staff cost increased by 30.7% to RMB28,508 million, which was in line with the increase in income, profits and other main operating indicators generally.

Other administrative expenses increased by 12.2% to RMB5,963 million, demonstrating the Bank's strategy on pursuing profitability growth by implementing stricter cost control, and improving operating efficiency.

Allowance for Impairment Losses

Allowance for impairment losses increased by RMB2,914 million or 18.9% to RMB18,315 million, of which, allowance for impairment losses on loans and advances to customers reached RMB13,648 million, representing a decrease of RMB1,121 million as compared to the first half of 2007. It was primarily attributable to continuous improvement of the loan quality of the Bank. Allowance for impairment losses on other assets amounted to RMB4,667 million, mainly representing the allowance for impairment losses on debt securities denominated in foreign currencies.

Income Tax Expense

Income tax expense increased by RMB2,319 million or 13.5% to RMB19,532 million, mainly due to the increase in profit before tax by RMB25,808 million or 44.0%. The effective tax rate dropped by 6.3 percentage points to 23.1%. The low effective tax rate was mainly due to the application of the new income tax rate of 25% in accordance with the new income tax law from 2008 onwards. The fact that the effective tax rate was lower than the statutory rate was primarily because the interest income from the treasury bonds of China is tax free under the tax law.

7.2 Segment Information

The Bank's principal business segments are corporate banking, personal banking and treasury operations. The Bank uses the Performance Value Management System (PVMS) to evaluate the performance of each business segment. The table below sets out the total operating income of each business segment of the Bank.

Summary Business Segment Information

In RMB millions, except for percentages

Item	January – June 2008		January – June 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate banking business	71,626	46.2	59,468	50.6
Personal banking business	51,690	33.4	39,198	33.3
Treasury operations	30,199	19.5	18,098	15.4
Others	1,441	0.9	825	0.7
Total operating income	<u>154,956</u>	<u>100.0</u>	<u>117,589</u>	<u>100.0</u>

The table below sets out the Bank's total operating income of each geographical segment.

Summary Geographical Segment Information

In RMB millions, except for percentages

Item	January – June 2008		January – June 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	16,650	10.7	15,885	13.5
Yangtze River Delta	36,285	23.4	25,953	22.1
Pearl River Delta	23,850	15.4	16,094	13.7
Bohai Rim	27,336	17.6	20,471	17.4
Central China	19,041	12.3	13,816	11.7
Northeastern China	7,543	4.9	6,482	5.5
Western China	21,159	13.7	16,072	13.7
Overseas and others	3,092	2.0	2,816	2.4
Total operating income	154,956	100.0	117,589	100.0

Focusing on the building of urban branches, the Bank gave top priority to the development of businesses in large- and medium-sized cities and reasonably adjusted the resource allocations among economic zones. The operating income of Yangtze River Delta, Pearl River Delta and Bohai Rim amounted to RMB87,471 million in aggregate and contributed to 56.4% of total operating income, up 39.9% over the same period last year. The operating income of Central China and Western China were RMB19,041 million and RMB21,159 million, an increase of 37.8% and 31.7% over the same period last year, respectively.

7.3 Analysis on Balance Sheet Items

Assets Deployment

As at the end of June 2008, total assets of the Bank amounted to RMB9,399,384 million, an increase of RMB715,672 million or 8.2% compared with the end of last year. Among the assets, total loans and advances to customers (collectively referred to as “loans”) increased by RMB282,136 million or 6.9%; net investment in securities increased by RMB86,425 million or 2.8%; cash and balances with central banks rose by RMB342,176 million or 30.0%. In terms of asset structure, net loans accounted for 45.0% of the total assets, dropped by 0.6 percentage point compared with the end of 2007; net investment in securities accounted for 34.0%, down 1.8 percentage points; cash and balances with central banks accounted for 15.8%, up 2.7 percentage points; and other assets accounted for 2.8%, up 0.5 percentage point, mainly due to the acquisition of 20% shares of Standard Bank Group Limited (“Standard Bank”) by the Bank, which was completed in March 2008.

Assets Deployment

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Total loans and advances to customers	4,355,365	—	4,073,229	—
Less: Allowance for impairment losses	122,047	—	115,687	—
Loans and advances to customers, net	4,233,318	45.0	3,957,542	45.6
Investment in securities, net	3,193,753	34.0	3,107,328	35.8
Of which: Receivables	1,212,167	12.9	1,211,767	14.0
Cash and balances with central banks	1,484,522	15.8	1,142,346	13.1
Due from banks and other financial institutions, net	164,638	1.8	199,758	2.3
Reverse repurchase agreements	59,182	0.6	75,880	0.9
Others	263,971	2.8	200,858	2.3
Total assets	9,399,384	100.0	8,683,712	100.0

Loans

During the first half of 2008, the Bank actively coped with changes in economic and financial situation at home and abroad, adhered to sound credit policies, optimized allocation of credit resources, and proactively adjusted loan distribution, thus maintaining moderate growth of loans and more reasonable distribution. At the end of June 2008, outstanding loans of the Bank were RMB4,355,365 million, an increase of RMB282,136 million or 6.9% over the end of last year, in which, RMB loans of domestic branches increased by RMB254,960 million or 6.8%, 2.6 percentage points lower than the average RMB loan growth of all financial institutions in China.

DISTRIBUTION OF LOANS BY BUSINESS LINE

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Loans of domestic operations	4,154,940	95.4	3,919,209	96.2
Corporate loans	3,155,604	72.4	2,914,993	71.6
Discounted bills	198,208	4.6	252,103	6.2
Personal loans	801,128	18.4	752,113	18.4
Loans of overseas operations and others	200,425	4.6	154,020	3.8
Total	4,355,365	100.0	4,073,229	100.0

The balance of corporate loans increased by RMB240,611 million or 8.3%. In terms of maturity, short-term corporate loans increased by RMB41,032 million or 3.6% and medium to long-term corporate loans increased by RMB199,579 million or 11.2%. In terms of product type, project loans increased by RMB163,745 million or 11.6%, which was mainly due to the growth of high-quality medium to long-term project loans in basic industries and infrastructure development industries. Property development loans increased by RMB33,700 million or 11.3%, the increment of which decreased by RMB19,188 million over that of the same period last year, owing to the increase of granting residential housing development loans to value customers. Working capital loans increased by RMB43,166 million or 3.6% as a result of the growth in trade finance and loans to small enterprises.

The balance of discounted bills decreased by RMB53,895 million or 21.4%. The decrease was mainly because the Bank optimized the structure of credit products including discounted bills by taking into consideration the macro-economic situation and financial market trend, so as to accelerate the turnover of discounted bills and achieved balanced loan portfolio and profit targets.

Personal loans increased by RMB49,015 million or 6.5%, because the Bank actively optimized the structure of personal credit products, devoted credit resources to personal housing loans and monitored the growth of personal business loans and personal consumption loans. Personal housing loans increased by RMB39,441 million or 7.4%; and credit card overdrafts increased by RMB3,434 million or 41.7%, as a result of the increase in the issuance volume and transaction volume of credit cards.

DISTRIBUTION OF DOMESTIC CORPORATE LOANS BY INDUSTRY

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Manufacturing	770,770	24.4	738,121	25.3
Chemicals	128,035	4.1	121,243	4.1
Machinery	104,566	3.3	95,709	3.3
Iron and steel	88,738	2.8	84,357	2.9
Metal processing	82,350	2.6	77,808	2.7
Textiles and apparels	80,366	2.5	79,112	2.7
Automobile	48,068	1.5	42,496	1.4
Electronics	40,111	1.3	43,181	1.5
Petroleum processing	39,745	1.3	35,761	1.2
Cement	31,791	1.0	30,963	1.1
Others	127,000	4.0	127,491	4.4
Transportation and logistics	655,872	20.8	602,103	20.7
Power generation and supply	459,843	14.6	404,873	13.9
Property development	338,684	10.7	303,984	10.4
Water, environment and public utility management	250,009	7.9	230,156	7.9
Retail, wholesale and catering	207,465	6.6	186,988	6.4
Leasing and commercial services	180,789	5.7	159,877	5.5
Science, education, culture and sanitation	72,340	2.3	69,742	2.4
Construction	60,687	1.9	52,639	1.8
Others	159,145	5.1	166,510	5.7
Total	3,155,604	100.0	2,914,993	100.0

In the first half of 2008, following the State's macro-economic policies control and industrial policy guidance, the Bank strengthened the guidance on industrial credit policies, proactively supported the growth of loans in energy, transportation and other major basic industries and infrastructure development industries, steadily developed property development loans, selectively supported manufacturing, logistics, emerging services and cultural industries, and applied "green credit" policies in an in-depth manner, thus continuously improved the industrial distribution of loans.

In terms of the incremental structure, loans to four industries including power generation and supply, transportation and logistics, property development and manufacturing grew most. The increment in loans for these industries accounted for 73.2% of total increment in domestic corporate loans. Loans to power generation and supply industry increased by RMB54,970 million or 13.6%, which was mainly due to the increase of loans to targeted customers in line

with the Bank's credit policy towards power industry. Loans to the industry of transportation and logistics increased by RMB53,769 million or 8.9%, which was mainly due to the increase of loans to highway, transportation and other related sub-industries which were encouraged by the credit policy of the Bank. Loans to the property development industry increased by RMB34,700 million or 11.4%, which were mainly granted to high-quality customers with financial strength and good qualification. Loans to the manufacturing industry increased by RMB32,649 million or 4.4%, which was mainly due to the increase in loans to industries of machinery, chemicals, automobile, etc.

In terms of the industrial distribution of loan balance, the loans mainly concentrated in industries of manufacturing, transportation and logistics, power generation and supply, and property development, which accounted for 70.5% of all domestic corporate loans of the Bank.

Distribution of Loans by Collaterals

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Loans secured by mortgages	1,638,132	37.6	1,519,748	37.3
Including: personal housing loans ⁽¹⁾	575,772	13.2	536,331	13.2
Pledged loans	553,025	12.7	575,598	14.1
Including: discounted bills ⁽¹⁾	198,208	4.6	252,103	6.2
Guaranteed loans	855,594	19.6	836,476	20.6
Unsecured loans	1,308,614	30.1	1,141,407	28.0
Total	<u>4,355,365</u>	<u>100.0</u>	<u>4,073,229</u>	<u>100.0</u>

Note: (1) Data of domestic branches.

At the end of June 2008, the unsecured loans of the Bank amounted to RMB1,308,614 million, representing an increase of RMB167,207 million or 14.6% as compared with that at the end of the previous year, representing a growth in the scale of loans to customers with higher credit rating and continuing optimization of customer composition. The loans secured by mortgages remained the largest component of loans with an amount of RMB1,638,132 million, representing an increase of RMB118,384 million or 7.8%.

Overdue Loans

In RMB millions, except for percentages

Period overdue	At 30 June 2008		At 31 December 2007	
	Amount	% of total loans	Amount	% of total loans
Overdue for 3 – 6 months	4,761	0.1	4,631	0.1
Overdue for 6 – 12 months	7,196	0.2	10,150	0.3
Overdue for more than 12 months	79,526	1.8	86,771	2.1
Total	91,483	2.1	101,552	2.5

Note: The loans and advances to customers with payment of principal or interest in arrears shall be deemed as overdue. As for loans or advances to customers which are allowed for repayment in installments, if a part of such loan or advance has been overdue, the whole loan or advance shall be classified as overdue loan or advance.

Renegotiated Loans

At the end of June 2008, renegotiated loans and advances amounted to RMB31,578 million, representing a decrease of RMB6,803 million or 17.7% as compared to that at the end of the previous year. Renegotiated loans and advances overdue for more than three months totaled RMB23,564 million, representing a decrease of RMB5,201 million.

Borrower Concentration

At the end of June 2008, loans to the largest single customer accounted for 3.2% of the Bank's net capital; and loans to the top 10 customers in aggregate accounted for 21.1% of the Bank's net capital, both in compliance with the regulatory requirements. The loans to the top 10 customers totaled RMB120,219 million, accounting for 2.8% of total loans.

Distribution of Loans by Five-tier Classification

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Pass	4,056,453	93.14	3,728,576	91.54
Special mention	193,776	4.45	232,879	5.72
Non-performing loans	105,136	2.41	111,774	2.74
Sub-standard	37,511	0.86	38,149	0.94
Doubtful	55,883	1.28	62,042	1.52
Loss	11,742	0.27	11,583	0.28
Total	4,355,365	100.00	4,073,229	100.00

The Bank's loan quality was further improved at the end of June 2008. In accordance with the five-tier classification, pass loans of the Bank went up by RMB327,877 million to RMB4,056,453 million, and accounted for 93.14% of the total loans, up 1.60 percentage points as compared to the end of the previous year, which reflected an increase in the Bank's high quality loans. The Bank's special mention loans decreased by RMB39,103 million to RMB193,776 million, and accounted for 4.45% of the total, down 1.27 percentage points, of which, special mention loans to domestic companies declined by RMB22,306 million mainly because the Bank has expedited the exit from loans with potential risk; special mention loans to domestic individuals slid down RMB17,328 million mainly because the Bank has strengthened the collection of loans in default. The balance of NPLs was RMB105,136 million, a decrease of RMB6,638 million and the NPL ratio was 2.41%, down 0.33 percentage point, representing a continued decrease both in the balance of NPLs and the NPL ratio, mainly because the Bank has accelerated the collection and disposal of NPLs through collection in cash, write-off, repossession of assets and other ways. The Bank also strengthened the monitoring of and exit from loans with potential risk.

NPLs by Business Line

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	NPL ratio (%)	Amount	NPL ratio (%)
Corporate loans	95,093	3.01	102,198	3.51
Discounted bills	—	—	—	—
Personal Loans	9,086	1.13	8,610	1.14
Overseas operations and others	957	0.48	966	0.63
Total	105,136	2.41	111,774	2.74

At the end of June 2008, the balance of non-performing corporate loans of the Bank's domestic operations decreased by RMB7,105 million to RMB95,093 million, with a decrease of 0.50 percentage point in NPL ratio to 3.01%. The balance of non-performing personal loans increased by RMB476 million to RMB9,086 million mainly because of slight increase in non-performing personal business loans, and the NPL ratio decreased by 0.01 percentage point to 1.13%.

Distribution of Non-performing Corporate Loans of Domestic Operations by Industry

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	NPL ratio (%)	Amount	NPL ratio (%)
Manufacturing	49,035	6.36	55,766	7.56
Chemicals	9,269	7.24	9,940	8.20
Machinery	7,285	6.97	8,411	8.79
Iron and steel	1,295	1.46	1,601	1.90
Metal processing	2,647	3.21	3,377	4.34
Textile and apparels	6,323	7.87	6,864	8.68
Automobile	1,596	3.32	1,837	4.32
Electronics	3,125	7.79	3,659	8.47
Petroleum processing	887	2.23	1,031	2.88
Cement	4,096	12.88	4,467	14.43
Others	12,512	9.85	14,579	11.44
Transportation and logistics	8,687	1.32	6,320	1.05
Power generation and supply	4,829	1.05	5,344	1.32
Property development	8,235	2.43	8,559	2.82
Water, environment and public utility management	1,039	0.42	1,118	0.49
Retail, wholesale and catering	14,531	7.00	15,949	8.53
Leasing and commercial services	1,465	0.81	1,349	0.84
Science, education, culture and sanitation	2,111	2.92	1,876	2.69
Construction	1,607	2.65	1,351	2.57
Others	3,554	2.23	4,566	2.74
Total	95,093	3.01	102,198	3.51

At the end of June 2008, the NPLs in the manufacturing industry decreased by RMB6,731 million and the NPL ratio declined by 1.20 percentage points; NPLs in retail, wholesale and catering industries decreased by RMB1,418 million and the NPL ratio declined by 1.53 percentage points; NPLs in the power generation and supply industry decreased by RMB515 million and the NPL ratio declined by 0.27 percentage point; NPLs in the property development industry decreased by RMB324 million and the NPL ratio declined by 0.39 percentage point. The rise of the NPLs and the NPL ratio in industries such as transportation and logistics, construction and science, education, culture and sanitation was mainly triggered by the NPLs in some borrowers. However, the overall loan risk in these industries did not deteriorate.

Changes in Allowance for Impairment Losses of Loans

In RMB millions

	Individually assessed	Collectively assessed	Total
Balance at the beginning of the period	58,944	56,743	115,687
Charge for the period	1,636	12,012	13,648
Accreted interest on impaired loans	(694)	—	(694)
Transfer-out ⁽¹⁾	(729)	—	(729)
Write-offs	(5,676)	(189)	(5,865)
Balance at the end of the period	<u>53,481</u>	<u>68,566</u>	<u>122,047</u>

Note: (1) Transfer-out refers to corresponding impairment allowance released as the Bank repossessed the collateralized assets in settlement of the related loans.

At the end of June 2008, the allowance for impairment losses of loans amounted to RMB122,047 million, representing an increase of RMB6,360 million as compared to that at the end of the previous year. The ratio of total allowance to NPL was 116.08%, up 12.58 percentage points, which reflected that the Bank's risk compensation capability has further improved. The ratio of allowance to total loans was 2.80%.

Investment

Investment

At the end of June 2008, the net balance of investment in securities amounted to RMB3,193,753 million, an increase of RMB86,425 million or 2.8% over the end of the previous year.

Investment

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Investment in securities not related to restructuring	2,162,208	67.7	2,074,094	66.7
Investment in securities related to restructuring ⁽¹⁾	1,026,767	32.1	1,026,767	33.1
Equity instruments	4,778	0.2	6,467	0.2
Total	<u>3,193,753</u>	<u>100.0</u>	<u>3,107,328</u>	<u>100.0</u>

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

At the end of June 2008, the balance of investment in securities not related to restructuring amounted to RMB2,162,208 million, an increase of RMB88,114 million or 4.2% over the end of 2007. The slowing growth was due to the Bank's adjustment of investment strategies and portfolio and its optimization of investment structure in response to the financial market trend. The balance of investment in securities related to restructuring amounted to RMB1,026,767 million.

Distribution of Investment in Securities by Holding Purpose

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Investments at fair value through profit or loss	43,739	1.4	34,321	1.1
Available-for-sale investments	589,426	18.4	531,155	17.1
Held-to-maturity investments	1,348,421	42.2	1,330,085	42.8
Receivables	1,212,167	38.0	1,211,767	39.0
Total	3,193,753	100.0	3,107,328	100.0

Available-for-sale investments increased by RMB58,271 million or 11.0% over the end of last year, accounting for 67.4% of the total increment of investment in securities; investments at fair value through profit or loss increased by RMB9,418 million or 27.4%; and held-to-maturity investments remained relatively stable.

Distribution of Investment in Securities not Related to Restructuring by Issuer

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Government bonds	492,838	22.8	431,917	20.8
Policy bank bonds	622,839	28.8	554,311	26.7
Central bank bills	815,704	37.7	783,929	37.8
Other bonds	230,827	10.7	303,937	14.7
Total	2,162,208	100.0	2,074,094	100.0

At the end of June 2008, the nominal value of bonds related to Freddie Mac and Fannie Mae, the US mortgage agencies, held by the Group totaled USD2,716 million, equivalent to 0.20% of the Group's total assets. Among these, bonds issued by Freddie Mac and Fannie Mae were USD465 million, equivalent to 0.03% of the Group's total assets, with credit ratings of AAA¹; the balance of mortgage-backed securities (MBSs) of Freddie Mac and Fannie Mae was USD2,251 million, equivalent to 0.17% of the Group's total assets. Payment of the principal and interest of the above bonds is considered as normal at present.

The Group held Alt-A residential mortgage-backed securities, US sub-prime residential mortgage-backed securities and structured investment vehicles (SIVs) with nominal value totaling USD651 million, USD1,214 million and USD55 million respectively. The nominal value of the above securities totaled USD1,920 million, equivalent to 0.14% of the Group's total assets. The Group has made cumulative allowance of USD702 million for impairment losses based on the valuation results and forward-looking consideration of the changes in market situation. The provision coverage (provisions/unrealized loss) and the provision ratio (provisions/nominal value) stood at 101.6% and 36.6% respectively. The Group considered that the allowance for impairment losses of these assets had reflected the impact of the observable market condition as of the end of the reporting period, and will continue to closely monitor any further market development on an ongoing basis. Further details of investments are illustrated in the table below.

In USD hundred millions, except for percentages

Item	Institution	Total nominal value	Proportion to total assets	By credit rating			
				AAA	AA	A and below	Unrated
Alt-A residential mortgage-backed securities		6.51	0.05	6.51	—	—	—
Sub-prime residential mortgage-backed securities		12.14	0.09	0.82	2.76	8.56	—
Structured investment vehicles	Parent company	0.15	0.00	—	—	0.15	—
	ICBC (Asia)	0.40	0.00	—	—	0.33	0.07
Total		<u>19.20</u>	<u>0.14</u>	<u>7.33</u>	<u>2.76</u>	<u>9.04</u>	<u>0.07</u>

Note: ICBC (Asia) means Industrial and Commercial Bank of China (Asia) Limited (same as hereinafter).

¹ Refer to the rating provided by Standard & Poor's or other rating agencies.

Liabilities

At the end of June 2008, the balance of total liabilities amounted to RMB8,845,618 million, an increase of RMB705,582 million or 8.7% over the end of last year. Among these, amounts due to customers and due to banks and other financial institutions reached RMB8,341,156 million, up RMB715,134 million or 9.4%.

Liabilities

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Due to customers	7,538,748	85.2	6,898,413	84.7
Due to banks and other financial institutions	867,292	9.8	805,174	9.9
Repurchase agreements	186,636	2.1	193,508	2.4
Subordinated bonds	35,000	0.4	35,000	0.4
Other liabilities	217,942	2.5	207,941	2.6
Total liabilities	<u>8,845,618</u>	<u>100.0</u>	<u>8,140,036</u>	<u>100.0</u>

Due to Customers

At the end of June 2008, the balance of due to customers reached RMB7,538,748 million, an increase of RMB640,335 million or 9.3% over the end of last year. Due to customers remained as a major source of funding and accounted for 85.2% of total liabilities. Affected by the stagnant capital market and cumulative effect of interest hikes policy, time deposits soared by RMB526,644 million, accounting for 82.2% of total increment in amount due to customers, with its proportion in total amount due to customers up 3.2 percentage points.

Corporate deposits increased by RMB287,198 million or 8.4% over the end of last year. Among these, corporate demand deposits increased by RMB37,329 million or 1.6%, and corporate time deposits increased by RMB249,869 million or 24.0%. The preference for liquidity of corporate customers was weakened continuously. As a result, the growth of corporate demand deposits slowed down but corporate time deposits grew rapidly.

Personal deposits rose by RMB347,995 million or 10.7% over the end of last year, of which, personal demand deposits increased by RMB71,220 million or 6.1%, and personal time deposits increased by RMB276,775 million or 13.4%. The Bank promoted the joint development of personal wealth management, third-party depository and deposit-taking businesses, and encouraged the flow of customer funds to savings deposits.

Distribution of Due to Customers by Business Line

In RMB millions, except for percentages

Item	At 30 June 2008		At 31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate deposits				
Time deposits	1,289,722	17.1	1,039,853	15.1
Demand deposits	2,400,159	31.8	2,362,830	34.2
Sub-total	3,689,881	48.9	3,402,683	49.3
Personal deposits				
Time deposits	2,346,281	31.2	2,069,506	30.0
Demand deposits	1,245,788	16.5	1,174,568	17.0
Sub-total	3,592,069	47.7	3,244,074	47.0
Overseas	150,846	2.0	136,707	2.0
Others⁽¹⁾	105,952	1.4	114,949	1.7
Total	7,538,748	100.0	6,898,413	100.0

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

Due to Banks and Other Financial Institutions

As of 30 June 2008, the amount due to banks and other financial institutions reached RMB867,292 million, representing an increase of RMB62,118 million or 7.7% compared to the end of last year and accounting for 9.8% of total liabilities, thus becoming a major funding source of the Bank. The slow down in the growth of amount due to banks and other financial institutions was primarily due to the adjustment in capital market.

7.4 Capital Adequacy Ratio

The Bank calculated the capital adequacy ratio and core capital adequacy ratio in accordance with the Regulations Governing Capital Adequacy of Commercial Banks promulgated by CBRC and other relevant regulatory requirements. At the end of June 2008, the Bank's capital adequacy ratio and core capital adequacy ratio were 12.46% and 10.33%, respectively, representing a decrease of 0.63 and 0.66 percentage points, respectively, compared with the end of the previous year. The decrease was mainly attributable to the equity investment of the Bank in Standard Bank during the reporting period.

Capital Adequacy Ratio

In RMB millions, except for percentages

Item	At 30 June 2008	At 31 December 2007
Core capital:		
Share capital	334,019	334,019
Reserves	168,018	148,631
Minority interests	4,335	5,305
Total core capital	506,372	487,955
Supplementary capital:		
General provision for doubtful debts	60,423	47,979
Long-term subordinated bonds	35,000	35,000
Other supplementary capital	12,344	11,669
Total supplementary capital	107,767	94,648
Total capital base before deductions	614,139	582,603
Deductions:		
Unconsolidated equity investments	17,547	3,868
Goodwill	23,328	1,878
Others	3,126	116
Net capital base	570,138	576,741
Core capital base after deductions	472,708	484,085
Risk weighted assets and market risk capital adjustment	4,575,361	4,405,345
Core capital adequacy ratio	10.33%	10.99%
Capital adequacy ratio	12.46%	13.09%

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

7.5 Outlook

Although there are uncertain factors which affect the economy, China's economy is expected to maintain sustainable growth in the second half of 2008. The impact of the US sub-prime mortgage crisis may be aggravated, and the increasing global inflation pressure and slowdown of global economy will pose challenges for China's economic growth. Domestic macro-control is expected to slow down the growth of credit scale of commercial banks. RMB appreciation, reduction of international market demands and rise of production costs will reduce the profitability of certain enterprises, thereby bringing about pressure on the loan quality of commercial banks. In the meanwhile, the downturn of capital market will slow down the development of intermediary businesses of commercial banks which are closely related to the capital market.

In the second half of this year, the Bank will rise to the challenges arising from external environment, and further speed up the strategic transition in pursuit of the maximization of shareholder value and achievement of sustainable growth. The Bank will strive to improve business and market innovation, brand image, customer service, risk control and supporting capability, consolidate and strengthen the advantages of its core business lines in the market, and become a leading international financial institution. The Bank will adopt the following strategies and measures: (1) In line with China's macro-control and industry policy orientation, the Bank will actively adjust credit asset structure, keep optimizing the industry, region and customer structure of credit extension, actively compete for quality credit market, and maintain steady and moderate growth of credit business. (2) The Bank will make great efforts to push forward financial innovation, continuously optimize asset and liability business structure, actively expand the sources of low-cost funds, develop non-credit business and keep increasing the proportion of fee and commission income. (3) The Bank will further improve the comprehensive risk management system, conduct dynamic monitoring, early warning and stress testing of risks, and control various risk limits. (4) The Bank will accelerate the international and diversified operations, expand overseas service network through various modes, enhance the market development capability of overseas operations, seek for a new trail of comprehensive development and diversify asset allocation and income sources. (5) The Bank will endeavor to improve financial services, speed up the update and integration of service channels, and actively reengineer business process. It will further optimize the organizational structure, integrate marketing resources, and establish a customer-centered service marketing system.

7.6 Showing Great Love during the Time of Disaster

On 12 May 2008, an earthquake with a magnitude of 8.0 on the Richter Scale hit Wenchuan, Sichuan Province. The Bank's branches, such as Sichuan, Gansu, Shaanxi and Chongqing, suffered losses to various extents, and the damage sustained by the Sichuan Branch was particularly serious. Facing such a devastating earthquake, under the strong leadership of the Central Government, the Head Office of the Bank responded quickly to the disaster and coped with the situation in a cool-headed manner. Branches in the quake areas fought against the disaster and the danger fearlessly, and strived to minimize casualties and losses arising from the disaster. None of the customers or employees of the Bank lost their lives in the Bank's office and operating outlets, and realized no loss of cash or information, and there were no criminal cases, such as theft and robbery, in the operating outlets. Operations in the non-quake areas offered help and assistance. As of 30 June, the Bank donated a total of RMB120 million to the disaster areas, which includes donations of RMB88.69 million from employees at home and abroad and donations of RMB33.22 million from business units of its domestic and overseas operations.

The entire Bank has united to overcome the difficulties, and assumed the economic and social responsibilities of a large bank at the critical moment. The Bank rapidly resumed operations of its outlets in the disaster areas by organizing "mobile banks" and setting up "tent banks" and "movable banks", thereby becoming the first bank to resume operations in the disaster areas. The Bank provided special emergency services on account management, payment settlement and credit card business; created complimentary express channels through its operating outlets, online banking and telephone banking for the purpose of collecting donations for the quake areas; established the "Green Channels" for the transfer of fiscal funds and insurance funds to ensure that the relevant funds can be quickly cleared and transferred; actively supported the financing of the disaster relief and reconstruction needs of key customers in the industries of power, telecommunications, highway and railway in the disaster areas, and as of 30 June the Bank had granted loans of RMB9.76 billion for disaster relief and reconstruction.

8. Significant Events

8.1 Compliance with the Code of Corporate Governance Practices (Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Hong Kong Listing Rules”))

During the reporting period, the Bank fully complied with all the principles and code provisions stipulated in the Code of Corporate Governance Practices (Appendix 14 to the Hong Kong Listing Rules).

8.2 Profits and Dividends Distribution

With the approval of the 2007 Annual General Meeting held on 5 June 2008, the Bank distributed cash dividends of a total of RMB44,425 million, or RMB1.33 per ten shares (including taxes), for the period from 1 January 2007 to 31 December 2007 to the shareholders who appeared on the register of shareholders as of 17 June 2008. The Bank will not declare any interim dividends for the interim period of 2008, nor will it convert any reserve to share capital.

8.3 Use of Proceeds from the IPO

The funds raised from the Bank’s IPO were used for the purpose disclosed in the IPO prospectus, being strengthening the capital base of the Bank to support the ongoing growth of the Bank’s operations.

8.4 Use 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.

8.5 Material Legal Proceedings and Arbitration

The Bank was involved in legal proceedings in the ordinary course of business. Most of these legal proceedings involved enforcement claims initiated by the Bank. In addition, some legal proceedings were arisen from customer disputes. As of 30 June 2008, the amount of material pending proceedings which the Bank and/or its subsidiaries was/were defendant totaled RMB2,799 million. The Bank does not expect any material adverse effect from the above-mentioned legal proceedings on the Bank’s business, financial position or operational results.

8.6 Material Asset Acquisition, Disposal and Merger

The Bank’s acquisition of 20% shareholding in Standard Bank, the acquisition of the shares in Seng Heng Bank Limited (“Seng Heng Bank”) and the acquisition of shares and warrants issued by ICBC (Asia) were disclosed in the 2007 Annual Report. The temporary announcements about the completion of the foregoing three transactions were published in the *China Securities Journal*, *Shanghai Securities News* and *Securities Times* on 4 March, 29 January and 25 January of 2008, respectively.

8.7 Connected Transactions

Connected Transactions as Defined by the Listing Rules of the Shanghai Stock Exchange

Connected Transactions with Goldman Sachs and SSF

Pursuant to the provisions of the Listing Rules of the Shanghai Stock Exchange, both Goldman Sachs and SSF are connected parties of the Bank. Please refer to the Interim Report for specific content of the connected transactions with Goldman Sachs and SSF during the reporting period. These transactions were carried out in the usual business of the Bank and on normal commercial terms, fulfilled the principle of honesty and good faith and will not affect the independence of the Bank.

Connected Transactions as Defined by Accounting Standards

Please refer to the Interim Report for the specific content of the connected transactions with MOF, Huijin and other connected parties.

8.8 Material Contracts and Performance of Obligations thereunder

Material Trust, Sub-Contract and Lease

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

Material Guarantees

The provision of guarantees belongs to the usual business of the Bank. During the reporting period, the Bank did not have any material guarantees that needed 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

No such matters concerning entrusting other persons for cash management occurred during the reporting period.

8.9 Funds Held by Substantial Shareholders

No funds were held by substantial shareholders in the Bank.

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

During the reporting period, the shareholders did not make any new commitments. The commitments in the reporting period were the same as those disclosed in the 2006 Annual Report. As of 30 June 2008, all of the commitments made by shareholders were properly fulfilled.

8.11 Commitments Made by the Shareholders Holding 5% Shares or Above in relation to Additional Shares subject to Restrictions on Sale

None.

8.12 Sanctions Imposed on the Bank and its Directors, Supervisors and Members of the Senior Management

During the reporting period, neither the Bank nor any of its directors, supervisors or members of the senior management was subject to any investigation by competent authorities, compulsory enforcement by judicial and disciplinary authorities, transfer to judicial department or pursuit of criminal responsibilities, investigation, censure or administrative penalty by CSRC, prohibition of securities market access, punishment by other administrative departments for improper personnel engagement or public reprimand by the stock exchanges.

8.13 Purchase, Sale or Redemption of Shares

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

8.14 Securities Transactions of Directors and Supervisors

During the reporting period, the Bank made reasonable enquiries with all directors and supervisors, and they all have complied with the provisions in relation to securities transactions of directors and supervisors as set forth in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules.

8.15 Review of the Interim Financial Report

The 2008 interim financial statements prepared by the Bank in accordance with CASs and IFRSs have been reviewed by Ernst & Young Hua Ming and Ernst & Young in accordance with Chinese and international standards on review engagements, respectively. The interim financial report has been reviewed by the Audit Committee of the Board of Directors.

8.16 Other Major Events

Securities Investment

No.	Stock (Fund) Code	Short name	Particulars hold at period-end (in 10,000)	Initial investment cost (in RMB)	Book value at end of the period (in RMB)	Book value at beginning of the period (in RMB)	Accounts
1	966 (Hong Kong, PRC)	CHINA INSURANCE	9,746.49	346,167,829	1,592,533,942	1,971,329,542	Available-for-sale investment
2	485105	ICBCCS Enhanced Income Bond Fund A	14,186.32	150,000,000	155,325,974	157,510,667	Available-for-sale investment
3	601998	CNCB	2,586.20	149,999,600	132,672,060	262,499,300	Available-for-sale investment
4	600744	HHEP	2,982.64	30,000,000	128,253,606	240,997,316	Available-for-sale investment
5	601600	CHALCO	918.19	10,000,000	119,731,976	361,675,041	Available-for-sale investment
6	600216	ZMC	479.00	3,513,203	99,200,900	92,926,000	Available-for-sale investment
7	1688 (Hong Kong, PRC)	Alibaba	1,002.80	131,782,620	95,419,336	264,332,169	Available-for-sale investment
8	481001	ICBCCS Core Value Equity Fund	7,260.65	20,000,000	55,376,971	79,598,496	Available-for-sale investment
9	000430	ZTDC	612.00	2,000,000	38,311,200	67,993,200	Available-for-sale investment
10	3988 (Hong Kong, PRC)	BOC	1,000.00	29,029,844	30,427,825	35,208,307	Financial assets held for trading
Total			—	872,493,096	2,447,253,790	3,534,070,038	—

Notes: (1) The share and fund investments listed in this table represent the securities investment calculated by the Bank according to the available-for-sale and trading financial assets in the consolidated balance sheet by the end of 2008 interim reporting period, including the investments of the share issued by other listed companies and open-end fund or close-end fund (top 10 by the book value at period-end).

(2) The shares of CIIH, Alibaba and BOC were held by ICBC (Asia), a subsidiary controlled by the Bank. ICBCCS Enhanced Income Bond Fund A and ICBCCS Core Value Equity Fund were held by our wholly-owned subsidiary, ICBC Credit Suisse Asset Management.

Shares of Unlisted Financial Institutions

Company	Initial investment cost (in RMB)	Shares held (in 10,000)	Percentage of total shares (%)	Book value at period-end (in RMB)
TaiPing Insurance Company Ltd.	172,585,678	N/A	7.93	62,315,054
Xiamen International Bank	102,301,500	N/A	18.75	102,301,500
China UnionPay Co., Ltd.	90,000,000	9,000.00	5.45	90,000,000
Guangdong Development Bank	52,465,475	2,379.22	0.21	52,465,475
China Ping An Insurance (HK) Co., Ltd.	14,134,025	27.50	25.00	32,728,519
Joint Electronic Teller Services Ltd.	10,158,374	0.0024	0.03	9,707,306
Yueyang City Commercial Bank	3,500,000	353.64	1.59	3,500,000
Luen Fung Hang Insurance Co., Ltd.	1,518,440	2.40	6.00	1,480,619
Guilin City Commercial Bank	420,000	113.61	0.28	420,000
Nanchang City Commercial Bank	300,000	39.00	0.03	390,000
Total	447,383,492	—	—	355,308,473

Note: (1) The shares of TaiPing Insurance Company Ltd. and China Ping An Insurance (HK) Co., Ltd. were held by ICBC (Asia), a subsidiary controlled by the Bank. The shares of Joint Electronic Teller Services Ltd. were held by ICBC (Asia), a subsidiary controlled by the Bank and Seng Heng Bank, the latter of which also holds the shares of Luen Fung Hang Insurance Co., Ltd.

9. Financial Statements

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

9.1.1 Unaudited Interim Condensed Consolidated Income Statement

(In RMB millions, unless otherwise stated)

	Six months ended 30 June	
	2008 (unaudited)	2007 (unaudited)
Interest income	215,011	163,798
Interest expense	(83,226)	(61,589)
NET INTEREST INCOME	131,785	102,209
Fee and commission income	25,470	17,210
Fee and commission expense	(990)	(673)
NET FEE AND COMMISSION INCOME	24,480	16,537
Net trading income	1,333	932
Net loss on financial assets and liabilities designated at fair value through profit or loss	(288)	(888)
Net gain/(loss) on financial investments	(869)	161
Other operating loss, net	(1,485)	(1,362)
OPERATING INCOME	154,956	117,589
Operating expenses	(53,193)	(43,592)
Impairment losses on:		
Loans and advances to customers	(13,648)	(14,769)
Others	(4,667)	(632)
OPERATING PROFIT	83,448	58,596
Share of profits and losses of associates	963	7
PROFIT BEFORE TAX	84,411	58,603
Income tax expense	(19,532)	(17,213)
PROFIT FOR THE PERIOD	64,879	41,390
Attributable to:		
Equity holders of the parent company	64,531	41,036
Minority interests	348	354
	64,879	41,390
DIVIDEND	44,425	5,344
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		
— Basic and diluted (RMB yuan)	0.19	0.12

9.1.2 Unaudited Interim Condensed Consolidated Balance Sheet

(In RMB millions, unless otherwise stated)

	30 June 2008 (unaudited)	31 December 2007 (audited)
ASSETS		
Cash and balances with central banks	1,484,522	1,142,346
Due from banks and other financial institutions	164,638	199,758
Financial assets held for trading	41,106	31,536
Financial assets designated at fair value through profit or loss	2,633	2,785
Derivative financial assets	25,354	22,769
Reverse repurchase agreements	59,182	75,880
Loans and advances to customers	4,233,318	3,957,542
Financial investments	3,150,014	3,073,007
Investments in associates	32,995	172
Property and equipment	78,340	80,266
Deferred income tax assets	7,118	5,833
Other assets	120,164	91,818
TOTAL ASSETS	9,399,384	8,683,712
LIABILITIES		
Financial liabilities designated at fair value through profit or loss	9,122	15,590
Derivative financial liabilities	8,841	7,127
Due to banks and other financial institutions	867,292	805,174
Repurchase agreements	186,636	193,508
Certificates of deposit	528	562
Due to customers	7,538,748	6,898,413
Income tax payable	19,769	33,668
Deferred income tax liabilities	158	337
Subordinated bonds	35,000	35,000
Other liabilities	179,524	150,657
TOTAL LIABILITIES	8,845,618	8,140,036
EQUITY		
Equity attributable to equity holders of the parent company		
Issued share capital	334,019	334,019
Reserves	149,250	158,204
Retained profits	66,162	46,148
	549,431	538,371
Minority interests	4,335	5,305
TOTAL EQUITY	553,766	543,676
TOTAL EQUITY AND LIABILITIES	9,399,384	8,683,712

9.1.3 Unaudited Interim Condensed Consolidated Statement of Changes in Equity
(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	—	—	—	—	(4,103)	—	—	—	(4,103)	—	(4,103)	(273)	(4,376)
Reserve realized on disposal/impairment of available-for-sale investments	—	—	—	—	1,618	—	—	—	1,618	—	1,618	(2)	1,616
Net loss on cash flow hedges	—	—	—	—	—	—	(4,080)	—	(4,080)	—	(4,080)	—	(4,080)
Foreign currency translation	—	—	—	—	—	(2,901)	—	—	(2,901)	—	(2,901)	(247)	(3,148)
Share of changes recognized directly in equity of associates	—	—	—	—	7	86	101	226	420	—	420	—	420
Total income and expense for the period recognized directly in equity	—	—	—	—	(2,478)	(2,815)	(3,979)	226	(9,046)	—	(9,046)	(522)	(9,568)
Profit for the period	—	—	—	—	—	—	—	—	—	64,531	64,531	348	64,879
Total income and expense for the period	—	—	—	—	(2,478)	(2,815)	(3,979)	226	(9,046)	64,531	55,485	(174)	55,311
Dividend – 2007 final	—	—	—	—	—	—	—	—	—	(44,425)	(44,425)	—	(44,425)
Appropriation to surplus reserves (i)	—	—	74	—	—	—	—	—	74	(74)	—	—	—
Appropriation to general reserve (ii)	—	—	—	18	—	—	—	—	18	(18)	—	—	—
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	368	368
Change in shareholdings in a subsidiary	—	—	—	—	—	—	—	—	—	—	—	(878)	(878)
Dividends to minority shareholders	—	—	—	—	—	—	—	—	—	—	—	(286)	(286)
Balance as at 30 June 2008 (unaudited)	<u>334,019</u>	<u>106,312</u>	<u>13,610</u>	<u>40,852</u>	<u>(3,867)</u>	<u>(3,904)</u>	<u>(3,979)</u>	<u>226</u>	<u>149,250</u>	<u>66,162</u>	<u>549,431</u>	<u>4,335</u>	<u>553,766</u>

(i) Includes the appropriation made by overseas branches and subsidiaries in the amount of RMB2 million and RMB72 million, respectively.

(ii) Represents the appropriation made by a subsidiary.

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						
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	—	—	—	—	(3,916)	—	(3,916)	—	(3,916)	63	(3,853)	
Reserve realized on disposal of available-for-sale investments	—	—	—	—	(22)	—	(22)	—	(22)	—	(22)	
Foreign currency translation	—	—	—	—	—	(195)	(195)	—	(195)	(108)	(303)	
Total income and expense for the period recognized directly in equity	—	—	—	—	(3,938)	(195)	(4,133)	—	(4,133)	(45)	(4,178)	
Profit for the period	—	—	—	—	—	—	—	41,036	41,036	354	41,390	
Total income and expense for the period	—	—	—	—	(3,938)	(195)	(4,133)	41,036	36,903	309	37,212	
Dividend – 2006 final	—	—	—	—	—	—	—	(5,344)	(5,344)	—	(5,344)	
Appropriation to surplus reserves (i)	—	—	3	—	—	—	3	(3)	—	—	—	
Appropriation to general reserve (i)	—	—	—	11	—	—	11	(11)	—	—	—	
Dividends to minority shareholders	—	—	—	—	—	—	—	—	—	(147)	(147)	
Balance as at 30 June 2007 (unaudited)	<u>334,019</u>	<u>106,312</u>	<u>5,467</u>	<u>12,730</u>	<u>(1,796)</u>	<u>(546)</u>	<u>122,167</u>	<u>41,837</u>	<u>498,023</u>	<u>4,699</u>	<u>502,722</u>	

(i) Represents the appropriation made by a subsidiary.

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					
Balance as at 1 July 2007	334,019	106,312	5,467	12,730	(1,796)	(546)	122,167	41,837	498,023	4,699	502,722
Net change in the fair value of available-for-sale investments	—	—	—	—	(1,842)	—	(1,842)	—	(1,842)	326	(1,516)
Reserve recognized on disposal/impairment of available-for-sale investments	—	—	—	—	2,249	—	2,249	—	2,249	65	2,314
Foreign currency translation	—	—	—	—	—	(543)	(543)	—	(543)	(261)	(804)
Total income and expense for the period recognized directly in equity	—	—	—	—	407	(543)	(136)	—	(136)	130	(6)
Profit for the period	—	—	—	—	—	—	—	40,484	40,484	380	40,864
Total income and expense for the period	—	—	—	—	407	(543)	(136)	40,484	40,348	510	40,858
Appropriation to surplus reserves (i)	—	—	8,069	—	—	—	8,069	(8,069)	—	—	—
Appropriation to general reserve (ii)	—	—	—	28,104	—	—	28,104	(28,104)	—	—	—
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	9	9
Change in shareholdings in a subsidiary	—	—	—	—	—	—	—	—	—	338	338
Dividends to minority shareholders	—	—	—	—	—	—	—	—	—	(251)	(251)
Balance as at 31 December 2007 (audited)	<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 RMB22 million.

9.1.4 Unaudited Interim Condensed Consolidated Cash Flow Statement

(In RMB millions, unless otherwise stated)

	Six months ended 30 June	
	2008 (unaudited)	2007 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	84,411	58,603
Adjustments for:		
Share of profits and losses of associates	(963)	(7)
Depreciation	4,045	4,275
Amortization	638	577
Amortization of financial investments	2,375	2,473
Impairment losses on loans and advances to customers	13,648	14,769
Impairment losses on assets other than loans and advances to customers	4,667	632
Foreign exchange difference	9,453	2,975
Interest expense on subordinated bonds	617	573
Accreted interest on impaired loans	(694)	(859)
Loss/(gain) on disposal of available-for-sale investments, net	904	(143)
Net trading loss on equity investments	3	3
Net gain on disposal of property and equipment and other assets (other than repossessed assets)	(168)	(818)
Dividend income	(35)	(18)
	118,901	83,035
Net decrease/(increase) in operating assets:		
Due from central banks	(307,419)	(184,947)
Due from banks and other financial institutions	1,748	37,658
Financial assets held for trading	(2,317)	(15,715)
Financial assets designated at fair value through profit or loss	54	62
Reverse repurchase agreements	19,438	(50,581)
Loans and advances to customers	(306,736)	(299,986)
Other assets	(23,817)	(28,724)
	(619,049)	(542,233)
Net increase/(decrease) in operating liabilities:		
Financial liabilities designated at fair value through profit or loss	(6,077)	(1,289)
Due to banks and other financial institutions	67,010	392,013
Repurchase agreements	(2,006)	36,961
Certificates of deposit	(10)	(1,744)
Due to customers	636,605	372,295
Other liabilities	34,721	(20,796)
	730,243	777,440
Net cash inflow from operating activities before tax	230,095	318,242
Income tax paid	(33,963)	(17,263)
Net cash inflow from operating activities	196,132	300,979

	Six months ended 30 June	
	2008	2007
	(unaudited)	(unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment and other assets	(2,717)	(1,866)
Proceeds from disposal of property and equipment and other assets (other than repossessed assets)	381	807
Purchases of financial investments	(821,506)	(855,628)
Proceeds from sale and redemption of investments	722,437	620,268
Acquisition of a subsidiary	2,261	—
Acquisition of minority interests	(1,783)	—
Acquisition of an associate	(37,420)	—
Dividends received	85	25
	<u>(138,262)</u>	<u>(236,394)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contribution by minority shareholders	66	—
Interest paid on subordinated bonds	(183)	(575)
Dividends paid on ordinary shares	(44,425)	(15,490)
Dividends paid to minority shareholders	(208)	(131)
	<u>(44,750)</u>	<u>(16,196)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		
	13,120	48,389
Cash and cash equivalents at beginning of the period	301,687	275,360
Effect of exchange rate changes on cash and cash equivalents	<u>(8,270)</u>	<u>(2,710)</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
	<u>306,537</u>	<u>321,039</u>
NET CASH INFLOW FROM OPERATING ACTIVITIES INCLUDE:		
Interest received	205,361	147,154
Interest paid	<u>(67,019)</u>	<u>(53,745)</u>

9.2 Significant Accounting Policies

The International Accounting Standards Board has issued certain new and revised International Financial Reporting Standards (“IFRSs”), including IFRIC interpretation 11 “IFRS 2 — *Group and Treasury Share Transaction*”, IFRIC interpretation 12 “*Service Concession Arrangement*” and IFRIC interpretation 14 “*IAS 19 — The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction*”, which are first effective for the current period of the Group, but have no impact on the Group’s financial statements. The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 December 2007.

9.3 Notes to Unaudited Interim Condensed Consolidated Financial Statements

(In RMB millions, unless otherwise stated)

9.3.1 NET INTEREST INCOME

	Six months ended 30 June	
	2008	2007
	(unaudited)	(unaudited)
Interest income on:		
Loans and advances to customers	148,417	109,925
Due from central banks	10,390	6,397
Due from banks and other financial institutions	4,680	4,655
Financial investments	51,524	42,821
	<u>215,011</u>	<u>163,798</u>
Interest expense on:		
Due to customers	(73,231)	(54,255)
Due to banks and other financial institutions	(9,378)	(6,761)
Subordinated bonds	(617)	(573)
	<u>(83,226)</u>	<u>(61,589)</u>
Net interest income	<u>131,785</u>	<u>102,209</u>

9.3.2 NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2008	2007
	(unaudited)	(unaudited)
Settlement, clearing business and cash management	6,821	4,367
Personal wealth management and private banking services	6,095	5,939
Investment banking business	4,822	2,345
Bank card business	3,197	2,477
Corporate wealth management services	1,458	486
Assets fiduciary activities	1,257	439
Guarantee and commitment business	1,116	344
Trust and agency services	406	319
Others	298	494
	<hr/>	<hr/>
Fee and commission income	25,470	17,210
Fee and commission expense	(990)	(673)
	<hr/>	<hr/>
Net fee and commission income	<u>24,480</u>	<u>16,537</u>

9.3.3 NET TRADING INCOME

	Six months ended 30 June	
	2008	2007
	(unaudited)	(unaudited)
Debt securities	1,226	476
Equity investments	(3)	(3)
Derivatives	110	459
	<hr/>	<hr/>
	<u>1,333</u>	<u>932</u>

9.3.4 NET LOSS ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Six months ended 30 June	
	2008	2007
	(unaudited)	(unaudited)
Financial assets	(24)	65
Financial liabilities	(264)	(953)
	<u>(288)</u>	<u>(888)</u>

9.3.5 NET GAIN/(LOSS) ON FINANCIAL INVESTMENTS

	Six months ended 30 June	
	2008	2007
	(unaudited)	(unaudited)
Dividend income from unlisted investments	34	18
Dividend income from listed investments	1	—
Gain/(loss) on disposal of available-for-sale investments, net	(904)	143
	<u>(869)</u>	<u>161</u>

9.3.6 OTHER OPERATING LOSS, NET

	Six months ended 30 June	
	2008	2007
	(unaudited)	(unaudited)
Loss from foreign exchange and foreign exchange products, net	(2,832)	(2,819)
Net gain on disposal of property and equipment, repossessed assets and others	602	818
Sundry bank charge income	74	99
Others	671	540
	<u>(1,485)</u>	<u>(1,362)</u>

9.3.7 OPERATING EXPENSES

	Six months ended 30 June	
	2008	2007
	(unaudited)	(unaudited)
Staff costs:		
Salaries and bonuses	18,960	14,021
Contributions to defined contribution schemes	2,652	2,293
Other staff benefits	6,896	5,505
	<u>28,508</u>	<u>21,819</u>
Premises and equipment expenses:		
Depreciation	4,045	4,275
Minimum lease payments under operating leases in respect of land and buildings	1,094	973
Repairs and maintenance charges	651	992
Utility expenses	723	659
	<u>6,513</u>	<u>6,899</u>
Amortization	638	577
Other administrative expenses	5,963	5,314
Business tax and surcharges	9,094	6,638
Others	2,477	2,345
	<u>53,193</u>	<u>43,592</u>

9.3.8 IMPAIRMENT LOSSES ON ASSETS OTHER THAN LOANS AND ADVANCES TO CUSTOMERS

	Six months ended 30 June	
	2008	2007
	(unaudited)	(unaudited)
Charge/(reversal) of impairment losses on:		
Due from banks and other financial institutions	(91)	—
Financial investments:		
Held-to-maturity debt securities	512	10
Available-for-sale investments	4,036	—
Property and equipment	—	431
Other assets	210	191
	<u>4,667</u>	<u>632</u>

9.3.9 INCOME TAX EXPENSE

	Six months ended 30 June	
	2008	2007
	(unaudited)	(unaudited)
Current income tax expense:		
PRC		
— Mainland China	20,766	19,012
— Hong Kong and Macau	209	169
Overseas	41	42
	<u>21,016</u>	<u>19,223</u>
Adjustment in respect of current income tax of prior periods	<u>(1,002)</u>	<u>(1,890)</u>
	20,014	17,333
Deferred income tax credit	<u>(482)</u>	<u>(120)</u>
Total income tax expense for the period	<u><u>19,532</u></u>	<u><u>17,213</u></u>

9.3.10 *DIVIDEND*

	Six months ended 30 June	
	2008	2007
	(unaudited)	(unaudited)
Dividends on ordinary shares declared and paid:		
— Final dividend for 2007: RMB0.133 per share (2006: RMB0.016 per share)	44,425	5,344
	<u><u>44,425</u></u>	<u><u>5,344</u></u>

9.3.11 *EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY*

	Six months ended 30 June	
	2008	2007
	(unaudited)	(unaudited)
Earnings:		
Profit for the period attributable to equity holders of the parent company	64,531	41,036
	<u><u>64,531</u></u>	<u><u>41,036</u></u>
Shares:		
Weighted average number of ordinary shares in issue (million)	334,019	334,019
	<u><u>334,019</u></u>	<u><u>334,019</u></u>
Earnings per share (RMB yuan)	0.19	0.12
	<u><u>0.19</u></u>	<u><u>0.12</u></u>

9.3.12 *DERIVATIVE FINANCIAL INSTRUMENTS*

A derivative is a financial instrument, the value of which is derived from the value of another “underlying” financial instrument, an index or some other variables. Typically, an “underlying” financial instrument is a share, commodity or bond price, an index value or an exchange or interest rate. The Group uses derivative financial instruments including forwards, futures, 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.

The Group had derivative financial instruments at the period/year end as follows:

30 June 2008 (unaudited)							
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	205,155	334,442	20,216	9,679	569,492	13,983	(5,278)
Option contracts purchased	26,839	31,920	2,072	—	60,831	8,412	(85)
	<u>231,994</u>	<u>366,362</u>	<u>22,288</u>	<u>9,679</u>	<u>630,323</u>	<u>22,395</u>	<u>(5,363)</u>
Interest rate contracts:							
Swap contracts	5,659	14,942	104,963	53,277	178,841	2,842	(3,320)
Forward contracts	4,115	3,978	23,870	3,292	35,255	114	(111)
Option contracts purchased/ written	—	203	2,851	2,443	5,497	1	(1)
	<u>9,774</u>	<u>19,123</u>	<u>131,684</u>	<u>59,012</u>	<u>219,593</u>	<u>2,957</u>	<u>(3,432)</u>
Other derivative contracts	<u>175</u>	<u>—</u>	<u>1,029</u>	<u>—</u>	<u>1,204</u>	<u>2</u>	<u>(46)</u>
	<u>241,943</u>	<u>385,485</u>	<u>155,001</u>	<u>68,691</u>	<u>851,120</u>	<u>25,354</u>	<u>(8,841)</u>
31 December 2007 (audited)							
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 forward foreign exchange contracts that are used to protect against exposure to variability of future cash outflow arising from investment in foreign operation which was expected to occur and actually occurred during the six months ended 30 June 2008. Gains and losses on the effective portions of derivatives designated as cash flow hedges are initially recognized directly in equity, in the cash flow hedge reserve, and will be recycled in the profit or loss in the same periods during which the investment acquired affects profit or loss, such as in the period that the investment is disposed of, or when it is expected that all or a portion of the loss recognized directly in equity will not be recovered in future periods.

There is no ineffectiveness recognized in the income statement that arises from cash flow hedges for the current period (six months ended 30 June 2007: Nil).

Fair value hedges

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

Among the Group's derivative financial instruments, certain were designated as hedging instruments for fair value hedge purpose.

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

	Six months ended 30 June	
	2008	2007
	(unaudited)	(unaudited)
Gain/(loss) arising from fair value hedge, net:		
— Hedging instruments	175	76
— Hedged items attributable to the hedged risk	(173)	(65)
	<u>2</u>	<u>11</u>

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

	30 June 2008 (unaudited)					Fair values	
	Notional amounts with remaining life of					Assets	Liabilities
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total		
Interest rate swap contracts	146	1,543	10,310	1,758	13,757	232	(269)
Currency swap contracts	—	—	69	—	69	—	(9)
	146	1,543	10,379	1,758	13,826	232	(278)

	31 December 2007 (audited)					Fair values	
	Notional amounts with remaining life of					Assets	Liabilities
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total		
Interest rate swap contracts	167	1,486	2,686	881	5,220	11	(160)
Currency swap contracts	—	—	74	—	74	—	(4)
	167	1,486	2,760	881	5,294	11	(164)

The replacement costs and credit risk weighted amounts in respect of the above derivatives of the Group as at the balance sheet date were as follows:

Replacement costs

	30 June 2008 (unaudited)	31 December 2007 (audited)
Currency derivatives	22,395	21,275
Interest rate derivatives	2,957	1,494
Other derivatives	2	—
	25,354	22,769

Credit risk weighted amounts

	30 June 2008 (unaudited)	31 December 2007 (audited)
Currency derivatives	5,550	5,117
Interest rate derivatives	3,266	1,729
	<u>8,816</u>	<u>6,846</u>

9.3.13 FINANCIAL INVESTMENTS

	30 June 2008 (unaudited)	31 December 2007 (audited)
Receivables	1,212,167	1,211,767
Held-to-maturity debt securities	1,348,421	1,330,085
Available-for-sale investments	589,426	531,155
	<u>3,150,014</u>	<u>3,073,007</u>

9.3.14 SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. The Group managed 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.

The measurement of segment assets and liabilities and segment revenues and results is based on the Group's accounting policies.

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 expenses arising on internal charges are referred to as "internal net interest income/expenses". Interest income and expenses relating to third parties are referred to as "external net interest income/expenses".

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

(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 repurchase transactions, debt instruments investments, and holding of derivative positions, for its own accounts or on behalf of customers.

Others

This segment represents equity investments and head office 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
Six months ended 30 June 2008 (unaudited)					
External net interest income/(expense)	89,690	(14,504)	56,599	—	131,785
Internal net interest income/(expense)	(33,466)	56,086	(22,620)	—	—
Net fee and commission income	14,171	10,205	104	—	24,480
Other operating income/(expense), net	1,231	(97)	(3,884)	1,441	(1,309)
Operating income	71,626	51,690	30,199	1,441	154,956
Operating expenses	(24,861)	(17,669)	(7,137)	(3,526)	(53,193)
Impairment losses on:					
Loans and advances to customers	(11,870)	(1,778)	—	—	(13,648)
Others	(211)	—	(4,454)	(2)	(4,667)
Operating profit/(loss)	34,684	32,243	18,608	(2,087)	83,448
Share of profits and losses of associates	—	—	—	963	963
Profit/(loss) before tax	34,684	32,243	18,608	(1,124)	84,411
Income tax expense					(19,532)
Profit for the period					64,879
Other segment information:					
Depreciation	1,683	1,222	755	385	4,045
Amortization	269	206	126	37	638
Capital expenditure	1,108	799	501	263	2,671
As at 30 June 2008 (unaudited)					
Segment assets	3,534,316	847,035	4,944,499	40,539	9,366,389
Investments in associates	—	—	—	32,995	32,995
Total assets	3,534,316	847,035	4,944,499	73,534	9,399,384
Segment liabilities	4,002,880	3,706,400	1,113,887	22,451	8,845,618
Other segment information:					
Credit commitments	773,844	134,120	—	—	907,964

	Corporate banking	Personal banking	Treasury operations	Others	Total
Six months ended 30 June 2007 (unaudited)					
External net interest income/(expense)	70,428	(14,757)	46,538	—	102,209
Internal net interest income/(expense)	(18,017)	44,601	(26,584)	—	—
Net fee and commission income	7,109	9,354	74	—	16,537
Other operating income/(expense), net	(52)	—	(1,930)	825	(1,157)
Operating income	59,468	39,198	18,098	825	117,589
Operating expenses	(20,489)	(17,361)	(4,594)	(1,148)	(43,592)
Impairment losses on:					
Loans and advances to customers	(14,251)	(518)	—	—	(14,769)
Others	(289)	(204)	(54)	(85)	(632)
Operating profit/(loss)	24,439	21,115	13,450	(408)	58,596
Share of profits and losses of associates	—	—	—	7	7
Profit/(loss) before tax	24,439	21,115	13,450	(401)	58,603
Income tax expense					(17,213)
Profit for the period					41,390
Other segment information:					
Depreciation	1,741	1,995	439	100	4,275
Amortization	184	312	63	18	577
Capital expenditure	747	881	194	44	1,866
As at 31 December 2007 (audited)					
Segment assets	3,304,163	800,948	4,555,289	23,140	8,683,540
Investments in associates	—	—	—	172	172
Total assets	3,304,163	800,948	4,555,289	23,312	8,683,712
Segment liabilities	3,718,053	3,346,591	1,063,941	11,451	8,140,036
Other segment information:					
Credit commitments	683,551	106,136	—	—	789,687

(b) Geographical segments

The Group operates principally in Mainland China with branches located in 35 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 and Dubai.

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 and capital expenditure are allocated based on the geographical locations of the underlying assets.

The details of the geographical segments are as follows:

- (i) Head Office: including the head office business division;
- (ii) Yangtze River Delta: including Shanghai, Zhejiang, Jiangsu and Ningbo;
- (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 and Inner Mongolia;
- (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
Six months ended										
30 June 2008 (unaudited)										
External net interest income	59,546	23,445	13,191	8,015	9,939	12,834	2,391	2,424	—	131,785
Internal net interest income/ (expenses)	(38,604)	6,202	5,215	14,632	5,091	4,533	3,327	(396)	—	—
Net fee and commission income	2,510	5,447	3,260	4,520	3,207	3,118	1,444	974	—	24,480
Other operating income/ (expense), net	(6,802)	1,191	2,184	169	804	674	381	90	—	(1,309)
Operating income	16,650	36,285	23,850	27,336	19,041	21,159	7,543	3,092	—	154,956
Operating expenses	(5,139)	(9,896)	(6,480)	(8,976)	(8,350)	(9,052)	(4,110)	(1,190)	—	(53,193)
Impairment losses on:										
Loans and advances to customers	(104)	(3,201)	(2,738)	(3,990)	(1,756)	(1,860)	115	(114)	—	(13,648)
Others	(4,522)	23	102	(16)	(14)	(2)	(217)	(21)	—	(4,667)
Operating profit	6,885	23,211	14,734	14,354	8,921	10,245	3,331	1,767	—	83,448
Share of profits and losses of associates	—	—	—	—	—	—	—	963	—	963
Profit before tax	6,885	23,211	14,734	14,354	8,921	10,245	3,331	2,730	—	84,411
Income tax expense										(19,532)
Profit for the period										<u>64,879</u>
Other segment information:										
Depreciation	415	676	498	672	666	695	382	41	—	4,045
Amortization	209	97	39	60	95	84	28	26	—	638
Capital expenditure	1,017	396	275	289	200	333	60	101	—	2,671
As at 30 June 2008 (unaudited)										
Segment assets	5,033,947	1,808,758	1,327,737	2,212,677	1,122,229	1,208,688	571,620	289,726	(4,216,111)	9,359,271
Investments in associates	—	—	—	—	—	—	—	32,995	—	32,995
Unallocated assets										7,118
Total assets										<u>9,399,384</u>
Segment liabilities	4,627,572	1,780,799	1,312,132	2,195,625	1,111,260	1,195,629	568,621	250,164	(4,216,111)	8,825,691
Unallocated liabilities										19,927
Total liabilities										<u>8,845,618</u>
Other segment information:										
Credit commitments	158,722	218,149	72,669	214,188	70,287	52,201	19,135	102,613	—	907,964

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Eliminations	Total
Six months ended										
30 June 2007 (unaudited)										
External net interest income	51,823	17,629	8,852	3,747	6,842	8,980	2,028	2,308	—	102,209
Internal net interest income/ (expenses)	(34,269)	4,972	4,157	13,684	4,646	4,397	3,057	(644)	—	—
Net fee and commission income	720	3,422	2,937	3,046	2,108	2,384	1,161	759	—	16,537
Other operating income/ (expense), net	(2,389)	(70)	148	(6)	220	311	236	393	—	(1,157)
Operating income	15,885	25,953	16,094	20,471	13,816	16,072	6,482	2,816	—	117,589
Operating expenses	(4,922)	(7,689)	(5,291)	(6,918)	(6,801)	(7,383)	(3,774)	(814)	—	(43,592)
Impairment losses on:										
Loans and advances to customers	(410)	(3,515)	(2,892)	(3,095)	(2,074)	(2,461)	(300)	(22)	—	(14,769)
Others	—	(48)	(57)	(55)	(121)	(156)	(190)	(5)	—	(632)
Operating profit	10,553	14,701	7,854	10,403	4,820	6,072	2,218	1,975	—	58,596
Share of profits and losses of associates	6	—	—	—	—	—	—	1	—	7
Profit before tax	10,559	14,701	7,854	10,403	4,820	6,072	2,218	1,976	—	58,603
Income tax expense										(17,213)
Profit for the period										<u>41,390</u>
Other segment information:										
Depreciation	458	690	538	720	687	733	422	27	—	4,275
Amortization	156	96	32	63	95	80	28	27	—	577
Capital expenditure	629	250	203	241	187	209	89	58	—	<u>1,866</u>
As at 31 December 2007 (audited)										
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										<u>5,833</u>
Total assets										<u>8,683,712</u>
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										<u>34,005</u>
Total liabilities										<u>8,140,036</u>
Other segment information:										
Credit commitments	132,988	188,336	69,492	161,591	49,155	56,028	13,029	119,068	—	<u>789,687</u>

9.3.15 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

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

	30 June 2008 (unaudited)	31 December 2007 (audited)
Authorized, but not contracted for	1,265	2,212
Contracted, but not provided for	1,174	45,943
	2,439	48,155

As at 30 June 2008, the Group entered into agreements in relation to capital injection in a subsidiary at a total consideration of approximately RMB268 million. 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 six months ended 30 June 2008.

(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:

	30 June 2008 (unaudited)	31 December 2007 (audited)
Within one year	1,924	1,635
Between the second and fifth years, inclusive	4,218	3,741
After five years	1,581	1,503
	7,723	6,879

(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 are under the assumption that the amounts will be fully advanced. The amounts for letters of credit and guarantees represent the maximum potential losses that would be recognized at the balance sheet date if the counterparties had failed to perform as contracted.

	30 June 2008 (unaudited)	31 December 2007 (audited)
Letters of credit issued	136,175	111,254
Guarantees issued	201,899	191,748
Acceptances	191,019	155,073
Irrevocable loan commitments with original maturity of:		
Not more than one year	21,411	13,281
More than one year	74,404	61,101
Unconditionally cancelable loan commitments	148,936	151,094
Undrawn credit card limit	134,120	106,136
	907,964	789,687
	30 June 2008 (unaudited)	31 December 2007 (audited)
Credit risk weighted amounts of credit commitments	368,111	384,545

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 characteristics. 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.

	30 June 2008 (unaudited)	31 December 2007 (audited)
Claimed amounts	<u>2,799</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 30 June 2008, the Bank had underwritten and sold bonds with an accumulated amount of RMB136,678 million (31 December 2007: RMB156,718 million) to the general public, and that 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 in respect of banks and other financial institutions are as follows:

	30 June 2008 (unaudited)	31 December 2007 (audited)
Underwriting obligations	<u>—</u>	<u>7,500</u>

10. Issue of Results Announcement and Interim Report

This announcement will be released on the 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 Interim 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 website of the Bank (www.icbc.com.cn, www.icbc-ltd.com), and sent to holders of H shares. The 2008 Interim Report and its summary prepared in accordance with CASs will be released simultaneously on the websites of the Shanghai Stock Exchange (www.sse.com.cn) and the Bank (www.icbc.com.cn, www.icbc-ltd.com).

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

The Board of Directors of
Industrial and Commercial Bank of China Limited

21 August 2008

As of the issue date of this announcement, directors of the Bank include executive directors, Mr. Jiang Jianqing, Mr. Yang Kaisheng, Mr. Zhang Furong and Mr. Niu Ximing; non-executive directors, Mr. Fu Zhongjun, Mr. Kang Xuejun, Mr. Song Zhigang, Mr. Wang Wenyan, Ms. Zhao Haiying, Mr. Zhong Jian'an and Mr. Christopher A. Cole; and independent non-executive directors, Mr. Leung Kam Chung, Antony, Mr. John L. Thornton, Mr. Qian Yingyi and Mr. Xu Shanda.