交通銀行
BANK OF COMMUNICATIONS

交通銀行股份有限公司

Bank of Communications Co., Ltd.

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

(Stock Code: 3328)

FIRST QUARTER RESULTS ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 2007

The Board of Directors of Bank of Communications Co., Ltd. (the "**Bank**") and its subsidiaries (the "**Group**") is pleased to announce the unaudited consolidated results (the "**First Quarter Results**") for the three months ended 31 March 2007 (the "**Period**") prepared in accordance with the International Accounting Standards 34 — "Interim Financial Reporting" issued by the International Accounting Standards Board. The audit committee of the Board of Directors of the Bank has reviewed and adopted the First Quarter Results.

1. FINANCIAL HIGHLIGHTS

(All amounts expressed in millions of RMB unless otherwise stated)

Item	**Three months ended 31 March 2007**	Three months ended 31 March 2006
Operation indicators		
Net interest income	**10,998**	8,787
Profit before tax	**7,200**	4,186
Net profit	**3,800**	2,901
Impairment losses on loans and advances	**(1,251)**	(1,052)
Return on total assets *(Note 1)*	**0.21%**	0.19%
Return on shareholders' equity *(Note 2)*	**4.02%**	3.37%
Basic and diluted earnings per share *(in RMB)*	**0.08**	0.06

	31 March 2007	31 December 2006
Shareholders' equity *(Note 3)*	**94,552**	90,436
Total assets	**1,817,944**	1,719,483
Net assets per share *(in RMB)*	**2.06**	1.97
Cost-to-income ratio *(Note 4)*	**33.96%**	47.66%
Impaired loan ratio *(Note 5)*	**2.36%**	2.53%
Provision coverage of impaired loan *(Note 5)*	**75.35%**	72.83%
Tier-1 capital adequacy ratio *(Note 6)*	**8.07%**	8.52%
Capital adequacy ratio *(Note 6)*	**12.57%**	10.83%

Notes:

1. This ratio represents the net profit of the Period to the total assets at the end of the Period;
2. This ratio represents the net profit of the Period to the shareholders' equity at the end of the Period;
3. Shareholder's equity of the Bank;
4. This ratio represents the other operating expenses to the operating income (including net interest income, net fee and commission income, dividend income, gains less losses arising from trading activities, gains less losses arising from de-recognition of investment securities and other operating income);
5. The impaired loan ratio represents the balance of impaired loan to the balance of loan before provision at the end of the Period;
6. The ratio is calculated in accordance with the People's Bank of China ("PBOC") and China Banking Regulatory Commission ("CBRC") guidelines and based on PRC Generally Accepted Accounting Principles ("PRC GAAP").

2. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

(1) Unaudited condensed consolidated profit and loss account

(All amounts expressed in millions of RMB unless otherwise stated)

	Three months ended 31 March	
	2007	2006
Interest income	**18,841**	14,338
Interest expense	**(7,843)**	(5,551)
Net interest income	**10,998**	8,787
Fee and commission income	**1,451**	763
Fee and commission expense	**(243)**	(142)
Net fee and commission income	**1,208**	621
Dividend income	**1**	1
Gains less losses arising from trading activities	**161**	89
Gains less losses arising from de-recognition of investment securities	**123**	17
Other operating income	**305**	132
Impairment losses on loans and advances	**(1,251)**	(1,052)
Other operating expenses	**(4,345)**	(4,409)
Operating profit before tax	**7,200**	4,186
Income tax	**(3,378)**	(1,285)
Net profit for the period	**3,822**	2,901
Attributable to:		
Shareholders of the Bank	**3,800**	2,901
Minority interest	**22**	—
	3,822	2,901
Basic and diluted earnings per share *(in RMB)*	**0.08**	0.06

(2) Unaudited condensed consolidated balance sheet

(All amounts expressed in millions of RMB unless otherwise stated)

	31 March 2007	31 December 2006
ASSETS		
Cash and balances with central banks	**195,163**	253,941
Due from other banks and financial institutions	**128,273**	118,623
Financial assets held for trading	**18,560**	12,995
Loans and advances to customers	**1,004,484**	910,307
Investment securities — loans and receivables	**57,908**	48,050
Investment securities — available-for-sale ("AFS")	**125,242**	339,823
Investment securities — held-to-maturity ("HTM")	**248,967**	—
Property and equipment	**26,059**	26,284
Deferred tax assets	**2,070**	3,520
Other assets	**11,218**	5,940
Total assets	**1,817,944**	1,719,483
LIABILITIES		
Due to other banks and financial institutions	**138,388**	168,666
Financial liabilities held for trading	**7,248**	8,724
Due to customers	**1,514,835**	1,420,331
Other liabilities	**21,698**	16,151
Current taxes	**3,319**	2,501
Deferred tax liabilities	**324**	323
Subordinated term debts	**37,499**	12,292
Total liabilities	**1,723,311**	1,628,988
EQUITY		
Capital and reserves attributable to the Bank's shareholders		
Share capital	**45,804**	45,804
Capital surplus	**21,540**	21,540
Other reserves	**10,680**	10,364
Retained earnings	**16,528**	12,728
	94,552	90,436
Minority Interest	**81**	59
Total equity	**94,633**	90,495
Total equity and liabilities	**1,817,944**	1,719,483

(3) Unaudited condensed consolidated statement of changes in shareholders' equity

(All amounts expressed in millions of RMB unless otherwise stated)

					Other reserves					
	Share capital	Capital surplus	Statutory reserve	Statutory general reserve	Revaluation reserve for AFS securities	Revaluation reserve for properties	Translation reserve on foreign operations	Retained earnings	Minority interest	Total
Balance at 1 January 2006	45,804	21,540	—	—	2,603	4,040	(88)	9,183	64	83,146
Gains from changes in fair value of AFS securities, net of tax	—	—	—	—	152	—	—	—	—	152
Translation difference on foreign operations	—	—	—	—	—	—	(16)	—	—	(16)
Net profit	—	—	—	—	—	—	—	2,901	—	2,901
Balance at 31 March 2006	45,804	21,540	—	—	2,755	4,040	(104)	12,084	64	86,183
Balance at 1 January 2007	45,804	21,540	899	4,428	867	4,383	(213)	12,728	59	90,495
Losses from changes in fair value of AFS securities, net of tax	—	—	—	—	(73)	—	—	—	—	(73)
Translation difference on foreign operations	—	—	—	—	—	—	(55)	—	—	(55)
Tax rate change impact	—	—	—	—	75	369	—	—	—	444
Net profit	—	—	—	—	—	—	—	3,800	22	3,822
Balance at 31 March 2007	45,804	21,540	899	4,428	869	4,752	(268)	16,528	81	94,633

(4) Unaudited condensed consolidated statement of cash flows

(All amounts expressed in millions of RMB unless otherwise stated)

	Three months ended 31 March	
	2007	2006
Cash flows from operating activities:		
Net profit before taxation:	**7,200**	4,186
Impairment of loans and advances to customers	**1,124**	1,093
Write-back of due from banks and financial institutions	**(52)**	(31)
Impairment of other receivables	**10**	145
Depreciation of property and equipment	**638**	612
Amortization of prepaid staff housing subsidies	**5**	80
Amortization of prepaid rental expenses	**31**	48
Amortization of land use rights	**1**	1
Amortization of intangible assets	**57**	30
Net gains on investment securities	**(123)**	(17)
Gains on disposal of fixed assets	**(5)**	(43)
Amortization of fair value remeasurement on AFS to HTM	**(35)**	—
Interest expense on subordinated term debt	**207**	142
Net increase in due from central banks	**(14,890)**	(4,205)
Net (increase)/decrease in due from other banks and financial institutions	**(6,458)**	6,190
Net (increase)/decrease in financial assets held for trading	**(5,565)**	144
Net increase in loans and advances to customers	**(95,301)**	(82,974)
Net increase in other assets	**(5,359)**	(1,296)
Net decrease in due to other banks and financial institutions	**(30,278)**	(401)
Net increase in trading liability	**(1,476)**	(236)
Net increase in due to customers	**94,504**	78,651
Net increase in other liabilities	**5,289**	2,823
Net increase in business tax payable	**283**	30
Income tax paid	**(624)**	(75)
Net cash (used in)/from operating activities	**(50,817)**	4,897
Cash flows from investing activities:		
Purchase of investment securities	**(117,088)**	(125,039)
Disposal or redemption of investment securities	**72,888**	108,919
Purchase of intangible assets	**(28)**	(15)
Prepaid rental expenses	**(17)**	(43)
Purchase of property and equipment	**(455)**	(313)
Disposal of property and equipment	**47**	139
Net cash used in investing activities	**(44,653)**	(16,352)

	Three months ended 31 March	
	2007	2006
Cash flows from financing activities:		
Subordinated debt issued	**25,000**	—
Dividends paid	**(3)**	—
Net cash used in financing activities	**24,997**	—
Effect of exchange rate changes on cash and cash equivalents	**(55)**	(95)
Net decrease in cash and cash equivalents	**(70,528)**	(11,550)
Cash and cash equivalents at the beginning of the period	**185,723**	101,305
Cash and cash equivalents at the end of the period	**115,195**	89,755
Major non-cash transactions		
Capitalization of translation difference on foreign operations	**(55)**	16
Supplementary Information		
Interest received	**18,750**	14,037
Interest paid	**(7,254)**	(5,397)

(5) Notes to the unaudited condensed consolidated financial statements

(A) *Basis of preparation and accounting policies*

This unaudited condensed consolidated financial information has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board.

This unaudited condensed consolidated financial information of the Group should be read in conjunction with the 2006 annual financial statements.

The Group adopted the following standards and amendments that were effective as at 1 January 2007:

- IFRS 7 Financial instruments: Disclosure (effective 1 January 2007);
- Amendments to IAS 1: Capital Disclosure (effective 1 January 2007);

The application of above standards and amendments did not result in substantial changes to the Group's accounting policies and did not have a material impact on the Group's consolidated financial statements as at 31 March 2006 and 31 March 2007.

Except for the above standards and amendments, the accounting policies and methods of computation used in the preparation of this unaudited condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2006.

(B) ***Net interest income***

(All amounts expressed in millions of RMB unless otherwise stated)

	Three months ended 31 March	
	2007	2006
Interest income		
Balances with central banks	**701**	465
Due from other banks and financial institutions	**1,640**	1,421
Loans and advances to customers	**13,348**	10,126
Investment securities	**3,100**	2,287
Others	**52**	39
	18,841	14,338
Interest expense		
Due to other banks and financial institutions	**(1,355)**	(698)
Due to customers	**(6,488)**	(4,853)
	(7,843)	(5,551)
Net interest income	**10,998**	8,787

	Three months ended 31 March	
	2007	2006
Interest income accrued on loans and advances to customers individually identified with impairment	**184**	173
Interest income accrued on amounts due from other banks and financial institutions with impairment	**—**	—

(C) ***Impairment losses on loans and advances***

(All amounts expressed in millions of RMB unless otherwise stated)

	Three months ended 31 March	
	2007	2006
Due from other banks and financial institutions and securities purchased under resale agreements, net	**(52)**	(31)
Loans and advances to customers	**1,308**	1,093
Less: recovery of loans previously written off	**(5)**	(10)
	1,251	1,052

(D) *Income tax*

(All amounts expressed in millions of RMB unless otherwise stated)

	Three months ended 31 March	
	2007	2006
Current tax		
— Mainland China income tax	**1,370**	1,264
— Hong Kong profits tax	**71**	37
— Overseas taxation	**1**	1
	1,442	1,302
Deferred tax	**1,936**	(17)
	3,378	1,285

The provision for Mainland China income tax is calculated based on the statutory rate of 33% of the assessable income of the Bank and each of the subsidiaries established in Mainland China as determined in accordance with the relevant PRC income tax rules and regulations for the three months ended 31 March 2007.

Profits earned by the Hong Kong branch or subsidiaries in Hong Kong are subject to Hong Kong profits tax at the rate of 17.5%, on the estimated assessable profit for the three months ended 31 March 2007. Taxation on overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the Group operates during the three months ended 31 March 2007.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the tax rate of the home country of the Bank at 33%. The reconciliation is as follows:

(All amounts expressed in millions of RMB unless otherwise stated)

	Three months ended 31 March	
	2007	2006
Profit before tax	**7,200**	4,186
Tax calculated at a tax rate of 33%	**2,376**	1,381
Effect of different tax rates in other countries	**10**	(1)
Tax credit arising from income not subject to tax *(note 1)*	**(265)**	(231)
Tax effect of expenses that are not deductible for tax purposes *(note 2)*	**66**	136
Tax rate change impact	**1,191**	—
Income tax	**3,378**	1,285

Note 1: The income not subject to tax of the Group mainly represents interest income arising from treasury bonds, which is income tax free in accordance with the PRC tax regulation.

Note 2: The expenses that are not tax deductible of the Group mainly represents a portion of expenditure, such as promotion expenses, entertainment expenses etc, which is over the tax deduction limits in accordance with the PRC tax regulation.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"), which is effective from 1 January 2008. Under the new CIT Law, the corporate income tax rate applicable to the domestic companies from 1 January 2008 will be decreased from 33% to 25%. This reduction in enterprise income tax rate will directly reduce the Group's effective tax rate prospectively from 2008. According to IAS 12, the deferred tax assets and deferred tax liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. As a result, such change in the corporate income tax rate impacted the financial position of the Group at 31 March 2007 as follows:

	Three months ended 31 March 2007
Increase: income tax expense of current period	**1,191**
Increase: revaluation reserve for AFS securities	**(75)**
Increase: revaluation reserve for properties	**(369)**
Decrease: deferred tax assets	**(1,147)**
Decrease: deferred tax liabilities	**400**

As at the date that these financial statements are approved for issue, detailed measures of the new CIT Law have yet to be issued. Subject to detailed measures and other related regulations concerning computation of taxable income, as well as specific preferential tax treatments and their related transitional provisions, the Group will further evaluate the impact to its operating results and financial positions of future periods as more detailed measures and other related regulations are announced.

(E) ***Basic and diluted earnings per share***

Basic and diluted earnings per share is calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the Period.

(All amounts expressed in millions of RMB unless otherwise stated)

	Three months ended 31 March	
	2007	2006
Profit attributable to shareholders of the Bank	**3,800**	2,901
Weighted average number of ordinary shares in issue	**45,804**	45,804
Basic and diluted earnings per share *(expressed in RMB per share)*	**0.08**	0.06

(F) ***Segmental information***

The following table sets out the segmental information of the Group's operating results, assets and liabilities. The geographical segments are:

(a) Northern China — Including the following cities and provinces: Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia;

(b) North Eastern China — Including the following provinces: Liaoning, Jilin, Heilongjiang;

(c) Eastern China — Including head office and the following cities and provinces: Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;

(d) Central & Southern China — Including the following provinces: Henan, Hunan, Hubei, Guangdong, Guangxi, Hainan;

(e) Western China — Including the following cities and provinces: Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang;

(f) Overseas — Including overseas subsidiaries and the following branches: Hong Kong, New York, Singapore, Tokyo and Seoul.

Geographical Segment information
(All amounts expressed in millions of RMB unless otherwise stated)

As at 31 March 2007	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Overseas	Eliminations & Consolidated	Total
Assets								
Cash and balances with central banks	5,023	3,329	173,457	8,783	4,329	242	—	195,163
Due from other banks and financial institutions	21,601	444	80,953	4,249	802	22,946	(2,722)	128,273
Financial assets held for trading	—	—	13,684	—	—	4,876	—	18,560
Loans and advances to customers	170,086	58,340	419,331	196,227	85,652	70,859	3,989	1,004,484
Investment securities								
— loans and receivables	3,809	2,586	44,226	5,545	1,742	—	—	57,908
— available-for-sale	23,450	15	78,509	2,370	18	20,880	—	125,242
— held-to-maturity	12,600	16,010	176,892	28,100	12,751	2,614	—	248,967
Other assets	10,866	6,974	3,962	14,969	7,315	11,989	(16,728)	39,347
Total assets	247,435	87,698	991,014	260,243	112,609	134,406	(15,461)	1,817,944
Liabilities								
Due to other banks and financial institutions	(24,708)	(2,252)	(64,220)	(16,041)	(3,404)	(27,763)	—	(138,388)
Financial liabilities held for trading	—	—	(424)	—	—	(6,824)	—	(7,248)
Due to customers	(272,870)	(128,221)	(579,430)	(316,456)	(145,275)	(72,416)	(167)	(1,514,835)
Other liabilities	(4,230)	(1,470)	(42,531)	(4,420)	(2,114)	(23,703)	15,628	(62,840)
Total liabilities	(301,808)	(131,943)	(686,605)	(336,917)	(150,793)	(130,706)	15,461	(1,723,311)
Net on balance sheet position	(54,373)	(44,245)	304,409	(76,674)	(38,184)	3,700	—	94,633
Acquisition cost of property and equipment ("PPE") and intangible assets	31	24	324	52	30	2	—	463

As at 31 March 2007	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Overseas	Eliminations & Consolidated	Total
For the three months ended 31 March 2007								
Interest income	**3,145**	**1,188**	**10,340**	**3,462**	**1,449**	**1,647**	**(2,390)**	**18,841**
Interest expense	**(1,485)**	**(571)**	**(5,062)**	**(1,281)**	**(567)**	**(1,223)**	**2,346**	**(7,843)**
Net interest income	**1,660**	**617**	**5,278**	**2,181**	**882**	**424**	**(44)**	**10,998**
Fee and commission income	**103**	**60**	**839**	**161**	**63**	**225**	**—**	**1,451**
Fee and commission expense	**(32)**	**(13)**	**(101)**	**(28)**	**(9)**	**(60)**	**—**	**(243)**
Net fee and commission income	**71**	**47**	**738**	**133**	**54**	**165**	**—**	**1,208**
Dividend income	**—**	**—**	**1**	**—**	**—**	**—**	**—**	**1**
Gains less losses arising from trading activities	**89**	**15**	**18**	**48**	**9**	**27**	**(45)**	**161**
Gains less losses arising from investment securities	**—**	**—**	**43**	**—**	**—**	**80**	**—**	**123**
Other operating income	**22**	**5**	**204**	**23**	**7**	**44**	**—**	**305**
(Impairment)/Reversal losses on loans and advances	**(145)**	**(282)**	**(627)**	**(184)**	**(14)**	**1**	**—**	**(1,251)**
Other operating expenses	**(609)**	**(421)**	**(2,040)**	**(591)**	**(396)**	**(288)**	**—**	**(4,345)**
Operating profit/(loss) before tax	**1,088**	**(19)**	**3,615**	**1,610**	**542**	**453**	**(89)**	**7,200**
Income tax	**(326)**	**(67)**	**(2,390)**	**(350)**	**(145)**	**(100)**	**—**	**(3,378)**
Net profit/(loss) for the period	**762**	**(86)**	**1,225**	**1,260**	**397**	**353**	**(89)**	**3,822**
Depreciation and amortization of property and equipment and intangible assets	**(70)**	**(70)**	**(362)**	**(105)**	**(63)**	**(25)**	**—**	**(695)**

As at 31 December 2006	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Overseas	Eliminations & Consolidated	Group Total
Assets								
Cash and balances with central banks	51,808	3,910	180,153	11,046	6,007	1,017	—	253,941
Due from other banks and financial institutions	21,239	497	72,037	5,508	472	22,971	(4,101)	118,623
Financial assets held for trading	—	—	8,599	—	—	4,396	—	12,995
Loans and advances to customers	162,029	55,830	376,947	179,744	79,490	53,667	2,600	910,307
Investment securities								
— loans and receivables	2,564	1,514	38,788	3,384	1,800	—	—	48,050
— available-for-sale	31,462	17,042	228,981	27,449	10,221	24,668	—	339,823
Other assets	11,229	8,241	29,155	13,129	7,227	7,646	(40,883)	35,744
Segment assets	280,331	87,034	934,660	240,260	105,217	114,365	(42,384)	1,719,483
Liabilities								
Due to other banks and financial institutions	(70,829)	(1,277)	(76,127)	(12,608)	(2,150)	(5,675)	—	(168,666)
Financial liabilities held for trading	—	—	(419)	—	—	(8,305)	—	(8,724)
Due to customers	(257,469)	(129,916)	(533,531)	(291,467)	(137,982)	(69,647)	(319)	(1,420,331)
Other liabilities	(3,408)	(1,103)	(37,046)	(3,520)	(1,521)	(27,372)	42,703	(31,267)
Segment liabilities	(331,706)	(132,296)	(647,123)	(307,595)	(141,653)	(110,999)	42,384	(1,628,988)
Net on balance sheet position	(51,375)	(45,262)	287,537	(67,335)	(36,436)	3,366	—	90,495

As at 31 December 2006	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Overseas	Eliminations & Consolidated	Group Total
Acquisition cost of property and equipment ("PPE") and intangible assets	491	283	1,970	647	325	92	2	3,810
For the three months ended 31 March 2006								
Interest income	2,360	1,017	8,024	2,527	1,124	1,165	(1,879)	14,338
Interest expense	(1,046)	(492)	(3,758)	(951)	(371)	(812)	1,879	(5,551)
Net interest income	1,314	525	4,266	1,576	753	353	—	8,787
Fee and commission income	72	43	279	111	56	202	—	763
Fee and commission expense	(11)	(5)	(41)	(23)	(5)	(57)	—	(142)
Net fee and commission income	61	38	238	88	51	145	—	621
Dividend income	—	—	1	—	—	—	—	1
Gains less losses arising from trading activities	62	15	(32)	40	7	16	(19)	89
Gains less losses arising from investment securities	4	—	13	—	—	—	—	17
Other operating income	11	7	40	13	2	59	—	132
(Impairment)/Reversal losses on loans and advances	(129)	(286)	(421)	(49)	(182)	15	—	(1,052)
Other operating expenses	(176)	(311)	(2,726)	(521)	(296)	(379)	—	(4,409)
Operating profit/(loss) before tax	1,147	(12)	1,379	1,147	335	209	(19)	4,186
Income tax	(257)	(30)	(747)	(146)	(64)	(41)	—	(1,285)
Net profit/(loss) for the period	890	(42)	632	1,001	271	168	(19)	2,901
Depreciation and amortization of property and equipment and intangible assets	(60)	(71)	(314)	(103)	(63)	(34)	—	(645)

(G) *Financial guarantees and credit related commitments, other commitments and contingent liabilities*

(i) *Financial guarantees and credit related commitments*

The following tables indicate the contractual amounts of the Group's financial guarantees and credit related commitments which the Group commits to extend to customers:

(All amounts expressed in millions of RMB unless otherwise stated)

	31 March 2007	31 December 2006
Guarantees	**93,213**	83,917
Letters of credit	**30,184**	28,375
Acceptances	**184,624**	166,094
Other commitments with an original maturity of		
— Under 1 year	**31,310**	24,694
— 1 year and over	**11,547**	10,953
	350,878	314,033

(ii) *Capital expenditure commitments*
(All amounts expressed in millions of RMB unless otherwise stated)

	31 March 2007	31 December 2006
Capital expenditure commitments for buildings	**137**	335

(iii) *Operating lease commitments*

Where the Group is the lessee, the future minimum lease payments under non-cancelable operating leases in respect of buildings are as follows:

(All amounts expressed in millions of RMB unless otherwise stated)

	31 March 2007	31 December 2006
Not later than 1 year	**664**	657
Later than 1 year and not later than 5 years	**1,450**	1,476
Later than 5 years	**503**	519
	2,617	2,652

(iv) *Commitments on security underwriting and bond acceptance*
(All amounts expressed in millions of RMB unless otherwise stated)

	31 March 2007	31 December 2006
Outstanding balance on security underwriting	**5,400**	10,200
Outstanding balance on bond acceptance *(note 1)*	**25,423**	24,523

Note 1: The Bank is entrusted by the Ministry of Finance ("MOF") to underwrite certain Certificates of Treasury Bond. The investors of Certificates of Treasury Bond can request to redeem the bonds at par any time prior to maturity and the Bank is committed to redeem those bonds. The redemption price is the principal value of the Certificates of Treasury Bond plus unpaid interest up to the date of redemption.

The original maturities of these bonds vary from 1 to 5 years.

The MOF will not provide funding for the early redemption of these Certificates of Treasury Bond on a back-to-back basis but will pay interest through maturity and repay the principal at maturity.

(v) *Legal proceedings*

A number of legal proceedings are initiated by third parties against the Group as defendant. The total outstanding claims at the end of the period/year are as follows:

(All amounts expressed in millions of RMB unless otherwise stated)

	31 March 2007	31 December 2006
Outstanding claims	**2,144**	2,058
Provision for losses	**952**	995

(H) ***Derivative financial instruments***

The following derivative instruments are utilized by the Group for trading purpose:

Currency forwards represent commitments to purchase/sell foreign exchanges including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer (OTC).

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

(All amounts expressed in millions of RMB unless otherwise stated)

	Fair values	
	Assets	**Liabilities**
As at 31 March 2007		
Total recognized derivatives	**408**	**(570)**

	Fair values	
	Assets	**Liabilities**
As at 31 December 2006		
Total recognized derivatives	**392**	**(568)**

The tables above provide a detailed breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at the end of the Period. These instruments, comprising foreign exchange and interest rate derivatives, allow the Group and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

The Group undertakes its transactions in foreign exchange and interest rate contracts with other financial institutions and customers. Management has established limits on these contracts by counterparties, industry sectors and countries. Actual credit exposures and limits are regularly monitored and controlled by management.

(I) ***Dividends***

(All amounts expressed in millions of RMB unless otherwise stated)

	Three months ended 31 March	
	2007	2006
Paid in the period	**3**	—

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

(i) Making up prior year's cumulative losses, if any;

(ii) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under PRC accounting regulations;

(iii) Allocations to statutory general reserve;

(iv) Allocations to the discretionary revenue reserve fund if approved by the Bank's Annual General Meeting. These funds form part of the shareholders' equity.

In accordance with the relevant regulations, the distributable profit is deemed to be the lesser of (i) the distributable profit determined in accordance with PRC GAAP and (ii) the distributable profit determined in accordance with IFRS.

The dividends are recognized in the balance sheet upon approval by the shareholders at the Annual General Meeting. At 31 December 2006, the aggregate amount of distributable profit was RMB12,635 million, being the distributable profit determined in accordance with IFRS (2005: PRC GAAP). On 8 March 2007, the directors proposed a cash dividend of RMB0.10 per share, amounting to RMB4,580 million. Such proposed dividend distribution is subject to the approval by shareholders at the Annual General Meeting.

3. RECONCILIATION OF NET ASSETS AND NET PROFIT FROM PRC GAAP TO IFRS

Under the PRC GAAP, the Bank has implemented the new Accounting Standards for Business Enterprises ("ASBE") issued by Ministry of Finance on 15 February 2006 since 1 January 2007. According to the requirements under "ASBE 38 — First-time adoption of ASBE", the Bank retrospectively stated the 2006 fiscal year's financial reports under the PRC GAAP. The reconciliation of net assets and net profit from PRC GAAP to IFRS after the restatement is listed as follows:

	Net Assets		**Net Profit**	
			Period end	Year end
	31 March 2007	31 December 2006 Restated	**31 March 2007**	31 December 2006 Restated
	(in millions of RMB)			
PRC GAAP figures	**91,324**	**87,437**	**3,958**	**12,516**
Adjustments for accounting standard differences:				
1. Revaluation surplus/deficit from fixed assets	**4,566**	4,631	**(65)**	(371)
2. Differences arising from the transfer of the non-performing loans to China Cinda Asset Management Corporation	**(492)**	(548)	**56**	212
3. Deferred taxes	**(895)**	(1,188)	**(100)**	(111)
4. Others	**130**	163	**(27)**	23
IFRS figures	**94,633**	**90,495**	**3,822**	**12,269**

Explanation of the adjustments for accounting standard differences:

(1) Revaluation surplus/deficit from fixed assets

In 2006, the Company carried out a further revaluation exercise on land and buildings for the purpose of the preparation of its IFRS financial statements, which was not a statutory valuation. The valuation surplus/deficit arising from the 2006 valuation have been reflected in IFRS accounts, while it is not recognised in PRC GAAP financial statements. The differences arising from fixed assets valuation exercise in 2006 has been reflected as an accounting standard difference accordingly. Such difference will be depreciated during the remaining beneficiary period.

(2) Differences arising from the transfer of the non-performing loans to China Cinda Asset Management Corporation

On 27 June 2004, the Company disposed of non-performing loans (the "Transferred Loans") to China Cinda Asset Management Corporation in exchange for a bill issued by the People's Bank of China (the "Bills"). The amount of carrying value of the Transferred Loans in excess of the fair value of the Bills, net of tax, was offset against capital surplus in its IFRS financial statements but under PRC GAAP the Bills were carried at face value. The discount will be amortized and recorded as interest income during the remaining beneficiary period of the Bills.

(3) Deferred taxes

In both PRC GAAP and IFRS financial statements prepared by the Company, deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Accordingly, all adjustments on accounting standard differences also gave rise to deferred taxation differences.

(4) Others

All other differences are adjustments with minor amounts.

4. MANAGEMENT DISCUSSION AND ANALYSIS

In the first quarter of 2007, the macro-economy in China sustained high growth and GDP growth rate reached 11.10%. In 2006, the People's Bank of China ("PBOC") has launched a series of macro-economic control measures such as raising benchmark rates for deposits and loans and mandatory deposit ratio, etc. In the first quarter of 2007, PBOC has again raised benchmark rates for deposits and loans and twice raised the mandatory deposit ratio. In this dynamic economic environment, the Group has seized new opportunities and achieved stable profitability growth and improved profitability structure through: intensified implementation of strategic development plan, business expansion and business structure optimization, product innovation and risk management enhancement.

(1) Operation overview

Asset growth was healthy and profit growth was maintained in the first quarter. As of the end of the Period, the Group's total asset was RMB1,817.944 billion, representing an increase of 5.73% as compared with the beginning of the year. Net profit was RMB3.8 billion, representing an increase of 30.99% compared to the same period of the previous year. Excluding the income tax rate change, which is a one time event, the increase is 72.04% as compared with the same period of the previous year. Quarterly return on assets was 0.21% and quarterly return on equity was 4.02%, representing an increase of 0.02 percentage points and 0.65 percentage points, respectively, compared to the same period of the previous year.

Asset quality has improved and provision coverage ratio has increased. Impaired loan ratio was 2.36%, representing a decrease of 0.17 percentage points compared to the beginning of the year. Provision coverage ratio reached 75.35%, representing an increase of 2.52 percentage points compared with the beginning of the year.

Operating efficiency has improved and cost-to-income ratio has reduced.

The Group has continued its commitment towards the enhancement of cost control management, improved operating efficiency and achieved a good cost-to-income ratio. For the Period, operating cost was RMB4.345 billion, representing a decrease of 1.45% compared to the same period of the previous year. Net operating income was RMB12.796 billion, representing an increase of 32.64% compared to the same period of the previous year. Net operating income increased significantly because operating cost has decreased compared to the same period of the previous year. Cost-to-income ratio was 33.96%, representing a decrease of 11.75 percentage points and 13.7 percentage points, respectively, compared to the same period of the previous year and compared to the previous year.

Our capital has expanded and capital adequacy ratio has increased. In March, the Group successfully issued RMB25 billion subordinated term bond. Capital adequacy ratio reached 12.57%, which represented an increase of 1.74 percentage points compared with the beginning of the year. Tier-1 capital adequacy ratio reached 8.07%, which represented a decrease of 0.45 percentage points compared with the beginning of the year.

(2) Business review

Deposit and loan business have maintained healthy growth. As of the end of the Period, total balance of due to customers (including interest, similarly hereinafter unless otherwise stated) amounted to RMB1,514.835 billion, representing an increase of RMB94.504 billion or 6.65% from the beginning of the year, such increase was ranked number one within the industry. Loans and advances to customers (before provision and including interest, similarly hereinafter unless otherwise stated) amounted to RMB1,022.668 billion, representing an increase of RMB95.263 billion or 10.27% from the beginning of the year. Corporate customers' structure of the Group's domestic branches maintained stability. The proportion of class 1 to class 5 high quality customers was 72.30%, representing an increase of 0.40 percentage points compared to the beginning of the year. Credit business for small enterprises recorded steady growth. As of the end of the Period, total balance of credit business for small enterprises was RMB107.7 billion, representing an increase of 5.48% compared to the beginning of the year.

Fast increase in fee-based business

The Group has been actively promoting fee-based business. To achieve improvements, it strengthened its emphasis on performance based incentives for employees, improved corresponding finance resource deployment, implemented appropriate pricing policy adjustments. Asset custody business, fund agency business, financial consulting services such as enterprise restructuring, mergers and acquisitions and IPO services etc., and bank card business have recorded significant growth during the Period, which promoted the growth of fee-based business. For the Period, total fee and commission income amounted to RMB1.451 billion, representing an increase of 90.71% compared to the same period of the previous year. Net fee and commission income amounted to RMB1.208 billion, representing an increase of 94.52% compared to the same period of the previous year. Net fee and commission income represented 9.44% of net operating income, representing an increase of 3 percentage points compared to the same period of the previous year.

Product innovation and new business development have been accelerated

The Group considers fulfilling customers' needs as one of its own responsibilities. It accelerated the pace of product innovation, product type enrichment, and new business development. With regards to personal finance products, the Group has for the first time launched the "Forex Kit" Joyous Orange Series RMB & Forex Management Product which are linked to a basket of stocks of the sponsors of the 2008 Beijing Olympic Games, two series of the "Forex Kit" Brightness Yellow Series RMB & Forex Management Product which are linked to overseas fund investment products, and "Forex Kit" Sapphire Blue Series trust plan. The above three products were sold out within a short time, and proved to be well-accepted by the market. The "Forex Kit" Sapphire Blue Series has opened up a new business area where the domestic banking industry cooperates with the trust industry. "Manjinbao" (滿金寶) business is a foreign currency reserve transaction product which was launched initially in August 2006. Its transaction volume totaled USD4.567 billion in the first quarter of 2007.

With regards to corporate business, custodian business experienced substantive progress. 20 securities companies have signed letters of intent with the Bank. Cooperation between banking and futures agencies has been intensified gradually. The advantages of centralized bank-futures accounts transfer have been identified. The Group is at the forefront of the industry for its progress in preparation of becoming one of the first members of the financial futures special clearance corporation. In respect of the key product "Yingtongzhanghu" (盈通賬戶) of the high end service brand "Yingtong Finance" (盈通財富) service contracts with several group customers have been signed. Some of these products have already been implemented. Short term financing bonds underwriting business has steadily expanded. In the Period, the Group has underwritten five short term financing bonds amounting to RMB7.7 billion which was ranked third in terms of market share.

Retail banking strategic transformation intensified

This year is the Group's second year of the implementation of the retail banking strategic transformation. The Retail business has made healthy progress and the implementation of the strategic transformation progressed satisfactorily.

In the Period, the accumulated issuance volume of Pacific debit cards and quasi-credit cards has reached 43.14 million, representing an increase of 1.80 million compared to the beginning of the year. The accumulated number of active Pacific credit card was 2.19 million, representing an increase of 254,000 cards compared to the beginning of the year.

A small enterprise credit management sub-division is established under retail credit management department. The adjustment in organizational structure has demonstrated a trend of operating specialization. The construction of individual customer brand has made breakthrough in the improvement of personalized and differentiated service system and measures for individual customers. "Bocom Fortune" (交銀理財) which was targeted to middle class high quality customers has launched initial field experiment in the Shanghai and Shenzhen market. It received positive market response. The assignment to improve service quality has been promoted. The "Mystery Customers" project continued to be executed. The Group is committed to building an effective customer service monitoring and evaluation mechanism.

Risk management continued to be refined

The Group has further clarified the responsibilities of risk management, enhanced risk evaluation and management functions through organizational restructuring in the following manners: 1. the establishment of the credit risk measurement division under credit authorization department; 2. the establishment of the asset-liability management department, and under which the market risk management division is established to monitor market risk centrally; 3. the establishment of the individual risk management division under the asset protection department to specialize in risk management for individual loans.

The Group improved risk management techniques. The project to develop techniques for risk measures progressed satisfactorily. The results of the testing of the internal rating system for corporate business met expectation and the system will soon be at promotion stage. The project of internal rating system for retail business was launched officially.

The Group has further reinforced daily risk management. It increased risk monitoring of group customers and its affiliates, strengthened direct involvement and supervision of head office in material risk projects, reinforced awareness of individual credit business risk with special emphasis on the following aspects: the prevention of individual loan fund flow into the stock market, the alert of operational risk associated with, and credit risk for individual loan counterfeit mortgage.

(3) Financial results

(A) ***Operating profit before tax***

For the period ended 31 March 2007, operating profit before tax was RMB7.2 billion, representing an increase of RMB3.014 billion or 72% compared to the same period of the previous year. The primary sources of operating profit before tax were net interest income and net fee and commission income.

The table below shows certain details of the Group's operating profits before tax for the periods indicated:

	Three months ended 31 March	
	2007	2006
	Amount	Amount
	(in millions of RMB)	
Net interest income	**10,998**	8,787
Net fee and commission income	**1,208**	621
Impairment losses on loans and advances	**(1,251)**	(1,052)
Operating profit before tax	**7,200**	4,186

(B) ***Net interest income***

As of 31 March 2007, the Group realized a net interest income of RMB10.998 billion, representing an increase of RMB2.211 billion or 25.16% compared with the same period of the previous year.

The table below sets forth the principal components of the Group's interest income, interest expense and the associated net interest margin and net interest spread, for the periods indicated:

	Three months ended 31 March 2007	Twelve months ended 31 December 2006
	(in millions of RMB, except percentages)	
Interest Income		
Balances with central banks	**701**	2,096
Due from other banks and financial institutions	**1,640**	6,141
Trading securities	**—**	—
Loans and advances to customers	**13,348**	45,321
Investment securities	**3,100**	10,855
Others	**52**	130
Total interest income	**18,841**	64,543
Interest expense		
Due to other banks and financial institutions	**(1,355)**	(3,548)
Due to customers	**(6,488)**	(21,192)
Total interest expense	**(7,843)**	(24,740)
Net interest income	**10,998**	39,803
Net interest spread(1)	**2.60%(3)**	2.70%(3)
Net interest margin(2)	**2.66%(3)**	2.75%(3)

Notes:

(1) This represents the difference between the average yield on the Group's total average interest-earning assets and the average cost of total average interest-bearing liabilities.

(2) This represents the ratio of net interest income to the average interest-earning assets.

(3) This is annualized result, which is interest rate calculated based on 31 March 2007 income and expense results multiplied by 4 and eliminates the impact of custodian financial products.

Yield of total interest-earning assets and cost of interest-bearing liabilities has increased by 0.09 percentage points and 0.19 percentage points, respectively, compared with the previous year. Net interest spread and net interest margin have decreased.

The increase in average yield of loans and advances to customers and due from other banks and financial institutions has caused the increase in overall yield of interest-earning assets. The average yield of loans and advances to customers was 5.71%, representing an increase of 0.17 percentage points compared to the previous year.

The average yield of due from other banks and financial institutions was 4.65%, representing an increase of 0.33 percentage points compared to the previous year. The main reasons for the increase are: firstly, in 2006, PBOC raised benchmark rate for RMB loans twice; secondly, the proportion of bills in the balance of loans and advances to customers has decreased; thirdly, in the international market USD has been running at high interest rates and Euro interest rate has been increasing continuously in small increments.

The increase in average cost of loans and advances to customers and due from other banks and financial institutions has caused the increase in overall cost of interest-bearing liabilities. Due to the lagging influence of benchmark rate increase for deposits by PBOC in

2006, the average interest rate of due to customers in the Period has increased by 0.17 percentage points compared to the previous year. In March, the Group issued RMB25 billion subordinated term bond at a relatively low interest rate, which has lowered the average cost for overall subordinated term debts, representing a decrease of 0.35 percentage points compared to the previous year.

The table below presents the average daily balances and interest rates of the Group's interest-earning assets and interest-bearing liabilities for the periods indicated:

	Three months ended 31 March 2007			Twelve months ended 31 December 2006		
	Average balance(1)	**Interest income (expense)**	**Average yield/ (cost)(3)**	Average balance(1)	Interest income (expense)	Average yield/ (cost)(3)
	(in millions of RMB, except percentage)					
Assets						
Cash and balances with central banks	**194,189**	**701**	**1.44%**	146,190	2,096	1.43%
Due from other banks and financial institutions	**141,194**	**1,640**	**4.65%**	142,158	6,141	4.32%
Loans and advances to customers	**934,404**	**13,348**	**5.71%**	818,166	45,321	5.54%
Investment securities and others	**396,456**	**3,152**	**3.18%**	351,993	10,985	3.12%
Total interest earning assets	**1,652,994(2)**	**18,664(2)**	**4.51%**	1,446,109(2)	64,005(2)	4.42%
Non interest earning assets	**69,565**			71,814		
Total assets	**1,722,559(2)**			1,517,923(2)		
Liabilities and Shareholders' equity						
Due to customers	**1,443,680**	**6,488**	**1.80%**	1,303,524	21,192	1.63%
Due to other banks and financial institutions	**152,375**	**1,148**	**3.01%**	100,215	2,974	2.97%
Subordinated term debts	**18,685**	**207**	**4.43%**	12,000	574	4.78%
Total interest bearing liabilities	**1,601,491(2)**	**7,666(2)**	**1.91%**	1,403,341(2)	24,202(2)	1.72%
Shareholders' equity and non interest bearing liabilities	**121,068**			114,582		
Total liabilities and shareholders' equity	**1,722,559(2)**			1,517,923(2)		

Notes:

(1) Daily average balance calculated in accordance with the PRC GAAP and adjusted in accordance with IFRS.

(2) This eliminates the impact of custodian financial products.

(3) This is annualized result, which is interest rate calculated based income and expense results of the first quarter multiplied by 4.

The table below presents the changes in the Group's interest income and interest expense due to changes in transaction volume and interest rates. Transaction volume and interest rate variance have been calculated based on movements in average balances over these periods and changes in interest rates on interest-earning assets and interest-bearing liabilities.

	Three months ended 31 March 2007 vs. twelve months ended 31 December 2006 Increase/(decrease) due to			2006 vs. 2005 Increase/(decrease) due to		
	Volume	**Interest rate**	**Net increase/ (decrease)**	Volume	Interest rate	Net increase/ (decrease)
			(in millions of RMB)			
Interest-Earning Assets						
Cash and balances with central banks	**688**	**20**	**708**	305	(24)	281
Due from other banks and financial institutions	**(42)**	**461**	**419**	879	1,887	2,766
Loans and advances to customers	**6,439**	**1,632**	**8,071**	6,434	2,582	9,016
Investment securities and other interest-earning assets	**1,388**	**235**	**1,623**	2,651	149	2,800
Change in interest income	**8,473**	**2,348**	**10,821**	10,269	4,594	14,863
Interest-Bearing Liabilities						
Due to customers	**2,279**	**2,481**	**4,760**	3,140	1,511	4,651
Due to other banks and financial institutions	**1,548**	**70**	**1,618**	925	1,058	1,983
Subordinated Bonds	**319**	**(65)**	**254**	(10)	27	17
Changes in interest expenses	**4,146**	**2,486**	**6,632**	4,055	2,596	6,651

(C) ***Net Fee and Commission Income***

Net fee and commission income experienced rapid growth in the first quarter beneficial from the following factors: charging annual fee on bank cards, adjustment of price standard for "Quanguotong" (全國通) business, the hot sale of security investment funds, policies such as performance based incentive plan and resource deployment etc. For the period ended 31 March 2007, the Group's net fee and commission income amounted to RMB1.208 billion, representing an increase of RMB587 million or 94.52% compared to the same period of the previous year. Its proportion in net operating income reached 9.44%, representing an increase of 3 percentage points compared to the same period of the previous year. Fee and commission income was RMB1.451 billion, representing an increase of RMB688 million or 90.17% compared to the same period of the previous year.

The main reasons for the rapid growth in net fee and commission income are as follows: (i) pacific card business recorded simultaneous increases in card volume and consumption per card, and the Bank has adjusted the price standard for "Quanguotong" (全國通) business, and promoted annual fee on bank cards, giving rise to a robust growth in the card business income; (ii) financial consulting services focused on enterprise restructuring, mergers and acquisitions, IPO services, and corporate finance have experienced fast growth, which effectively substantiated the content of fee-based business; (iii) benefiting from China's active capital market, asset custodian business and fund agency business have experienced remarkable growth. In first quarter, the value of assets under custody reached RMB142.5

billion, representing an increase of 23% compared to 2006 year end. The number of funds and portfolio under custody totaled 141, representing an increase of 15 compared with 2006 year end. The scale of fund agent distribution business reached RMB44.011 billion, which represented 4.75% of total market share, representing an increase of 0.94 percentage points compared with the end of the previous year.

(D) ***Other operating expenses***

As of 31 March 2007, other operating expenses of the Group amounted to RMB4.345 billion, representing a decrease of RMB64 million or 1.45% from the same period of the previous year.

The cost-to-income ratio of the Group continued its descending trend: from 47.66% in the previous year to 33.96% as of the Period, representing a decrease of 13.7 percentage points. The decrease was mainly due to a substantial increase in operating income by 32.64%, while operating cost has decreased compared to the same period of the previous year.

(E) ***Impairment losses on loans and advances***

The Group's impairment losses on loans and advances consisted of impairment losses on impaired loans and advances to customers (less recovery of loans previously written off) and the provision for balances due from other banks and financial institutions as well as securities purchased under resale agreements.

The impairment losses on loans and advances increased from RMB1.052 billion in the same period of the previous year to RMB1.251 billion in the Period. Quarterly credit-cost-ratio reached 0.12%, maintained the level of the same period of the previous year.

(3) Assets

As of 31 March 2007, the Group's total assets amounted to RMB1,817.944 billion, achieving an increase of RMB98.461 billion, or 5.73% from the previous year. The four principal components of the Group's assets were loans and advances to customers, investment securities, due from other banks and financial institutions, and cash and balances with central banks, with proportions of 55.25%, 23.77%, 7.06%, and 10.74% of the Group's assets, respectively.

(A) ***Loan business***

The Group has maintained healthy growth for loan business, and further optimized its loan portfolio and made great efforts to increase substantive loans. As of 31 March 2007, the Group's total outstanding loans and advances to customers (before provision and after interest, similarly hereinafter unless otherwise stated) amounted to RMB1,022.668 billion, representing an increase of RMB95.263 billion or 10.27% from the beginning of the year. Loans to deposits ratio (excluding interest receivable and interest payable) reached 67.76%, achieving an increase of 2.24 percentage points from the beginning of the year. Customer loans other than bills excluding interest receivable became the major component contributing to the surge of loans and advances to customers. Such loans increased by RMB91.089 billion or 10.69% from the beginning of the year and accounting for 95.62% of the increase in the total loans and advances to customers. The balance of discounted bills increased by RMB4.302 billion or 5.91% from the beginning of the year, contributing to 4.52% of the increase in total loans and advances to customers.

(i) *Loan concentration by industries*

The Group has maintained a reasonable loan portfolio, which is further optimized. The focused industries, real estate and steel industries, still accounted for a low proportion in the portfolio. Of such industries, loans to the manufacturing industry recorded a net increase of RMB25.36 billion over the beginning of the year and accounted for 26.02%

of the total loans and advances to customers, representing an increase of 0.06 percentage points compared to the beginning of the year. Within the loans to the manufacturing industry, loans to the steel industry recorded a net increase of RMB809 million over the beginning of the year and accounted for 2.67% of the total loans and advances to customers, representing a decrease of 0.19 percentage points compared to the beginning of the year. Loans to the trading industry recorded a net increase of RMB6.983 billion over the beginning of the year and accounted for 8.70% of the total loans and advances to customers, representing a decrease of 0.14 percentage points compared to the beginning of the year. Loans to the real estate industry recorded a net increase of RMB4.253 billion over the beginning of the year and accounted for 6.87% of the total loans and advances to customers, representing a decrease of 0.24 percentage points compared to the beginning of the year. Loans to the transportation and public utilities sectors recorded a net increase of RMB18.814 billion over the beginning of the year and accounted for 17.13% of the total loans and advances to customers, representing an increase of 0.27 percentage points compared to the beginning of the year.

(ii) *Borrower concentration*

Under the existing PRC banking regulations, the total outstanding credit exposure to a single group customer must not exceed 15% of the net regulatory capital of a bank whereas the total outstanding loans to a single borrower shall not exceed 10% of the net regulatory capital of a bank. The Group currently complies with these regulatory requirements.

(iii) *Loan concentration by geographical locations*

The Group's loans and advances to customers concentrated in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta regions. Loans to borrowers from the above regions accounted for 63.44% of the total loans and advances to customers outstanding (excluding interest receivable) as of 31 March 2007.

(iv) *Loan quality*

The Group continued to enhance asset risk management to maintain stable loan quality. As of 31 March 2007, the impaired loan ratio was 2.36 %, down by 0.17 percentage points as compared with the percentage as of the end of the previous year. The credit-cost ratio was 0.12%, in same level as compared to the ratio of the same period of the previous year. The provision coverage of impaired loans has increased from 72.83% at the end of last year to 75.35%. Taking into account the statutory and general reserves of RMB4.428 billion, the Group's provision coverage of impaired loans stood at 93.69%.

Impaired loan is a concept under IFRS. A loan is impaired if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loan.

The table below shows certain information of the Group's individually identified impaired loans and loans overdue by 90 days or more, as of the dates indicated:

	31 March 2007	31 December 2006
	(in millions of RMB, except percentage)	
Individually identified impaired loans	**24,134**	23,477
Loans overdue by 90 days or more	**20,027**	18,369
Loans with impairment to gross loans balance (percentage)	**2.36%**	2.53%

(v) *Borrowers structure*

The Group targeted prominent enterprises in quality industries located in key regions to optimize its borrower structure. Meanwhile, the Group targeted to broaden its customer base and discover small and medium enterprises with good potential. It has maintained risk within a reasonable range while at the same time increasing yields and improved overall bargaining ability. As of 31 March 2007, corporate customers of the Group's domestic branches were classified based on the 10-class credit rating system. Compared to the beginning of the year, the proportion of outstanding loans of class 1 to class 5 high quality customers increased by 0.40 percentage points to 72.30% while those of class 6 to class 7 customers decreased by 1.2 percentage points to 19.40%, and those of class 8 to class 10 high risk customers decreased by 0.2 percentage points to 2.0%. Credit business for small enterprises maintained steady growth. Total loan outstanding to small enterprises reached RMB107.7 billion, increased by 5.48% compared to the beginning of the year.

(B) *Treasury business*

The Group strengthened its treasury management business. It promoted product innovation for treasury business and made a great effort to improve yield of treasury operations taking into consideration of reasonable deployment of non-credit assets and improvement of non-credit assets operating efficiency. As of 31 March 2007, the Group's average balance of investment securities amounted to RMB396.456 billion, representing an increase of RMB44.463 billion or 12.63% from the previous year. Yield of investment securities reached 3.18%, which has increased by 0.06 percentage points from the previous year. The increase was beneficial to improve overall yield of interest-earning assets. In the first quarter, the Group has seized favourable opportunity and issued RMB25 billion subordinated term bond at a relatively low cost.

(4) Liabilities

As of 31 March 2007, the total liabilities of the Group amounted to RMB1,723.311 billion, representing an increase of RMB94.323 billion or 5.79% from the previous year. The amount of due to customers represented 87.90% of the Group's total liabilities. The principal sources of funds were from corporate and individual deposits. Corporate deposits amounted to RMB969.82 billion, representing an increase of RMB80.37 billion or 9.04% from the previous year. The balance represented 64.02% of total deposit balance. Individual deposit amounted to RMB529.188 billion, representing an increase of RMB19.154 billion or 3.76% from the previous year. The balance represented 34.93% of total deposit balance. This has provided a stable source of funds for investment activities and credit business.

The table below sets forth the Group's corporate and individual deposit structure as of the dates indicated:

		31 March 2007	31 March 2006
		(in millions of RMB)	
Corporate deposits		**969,820**	889,450
in which:	Corporate current deposits	**554,819**	517,158
	Corporate savings deposits	**5,763**	6,151
	Corporate time deposits	**409,238**	366,141
Individual deposits		**529,188**	510,034
in which:	Individual current deposits	**195,531**	188,299
	Individual savings deposits	**14,116**	14,183
	Individual time deposits	**319,541**	307,552

(5) Geographical segments

(A) *Segmental operating results by geographical segments*

A geographical segment refers to a specific economical environment under which the Group operates and which gives rise to risks and returns that are different from other economical environments in which the Group operates.

The table below shows the net profit and total revenue from each of the Group's geographical segments as of the dates indicated:

	Three months ended on 31 March			
	2007		2006	
	Net profit/ (Loss)	**Total revenue[1]**	Net profit/ (Loss)	Total revenue[1]
	(in millions of RMB)			
Northern China[2]	**762**	**3,359**	890	2,509
Northeastern China[3]	**(86)**	**1,268**	(42)	1,082
Eastern China[4]	**1,225**	**11,445**	632	8,325
Central and Southern China[5]	**1,260**	**3,694**	1,001	2,691
Western China[6]	**397**	**1,528**	271	1,189
Overseas[7]	**353**	**2,023**	168	1,442
Eliminations	**(89)**	**(2,435)**	(19)	(1,898)
Total[8]	**3,822**	**20,882**	2,901	15,340

Notes:

(1) Including interest income, fee and commission income, dividend income, gains less losses arising from trading activities, gains less losses arising from de-recognition of investment securities and other operating income.

(2) Including Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region.

(3) Including Liaoning Province, Jilin Province and Heilongjiang Province.

(4) Including Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province.

(5) Including Henan Province, Hunan Province, Hubei Province, Guangdong Province, Guangxi Autonomous Region and Hainan Province.

(6) Including Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region.

(7) Including overseas subsidiaries and the following branches: Hong Kong, New York, Singapore, Tokyo and Seoul.

(8) Including minority interests.

(B) ***Segmental Deposit/Loan results by geographical segments***

The table below sets forth the deposit balance and loan balance from each of the Group's geographical segments as of the dates indicated:

	31 March 2007		31 December 2006	
	Deposit Balance[1]	**Loan Balance[2]**	Deposit Balance[1]	Loan Balance[2]
		(in millions of RMB)		
Northern China	**271,098**	**172,281**	255,802	164,116
Northeastern China	**127,132**	**61,576**	128,824	58,739
Eastern China	**576,102**	**424,430**	530,266	381,356
Central and Southern China	**314,804**	**198,770**	289,917	182,059
Western China	**144,397**	**87,676**	137,161	81,658
Overseas	**72,207**	**75,483**	69,648	56,897
Total	**1,505,740**	**1,020,216**	1,411,618	924,825

Notes:

(1) Net of interest payable

(2) Net of interest receivable

(6) Capital adequacy ratio

The Group actively promoted capital development, and maintained appropriate growth of risky asset. It maintained capital adequacy ratio at expected level. As of 31 March 2007, the Group's capital adequacy ratio reached 12.57%, representing an increase by 1.74 percentage points from the end of the previous year. Capital adequacy ratio has increased from the previous year end and the main reason is that the Group has successfully issued RMB25 billion subordinated term debt in March. Tier-1 capital adequacy ratio reached 8.07%, which has decreased by 0.45 percentage points from the beginning of the year.

(7) Outlook for 2007

Look forward for the year 2007, overall domestic economic environment in China will continue its upturn. Meanwhile, the operating environment for the banking industry might experience more significant changes aroused by upcoming macro-economic control measures, further development of the capital market, accelerated competition within the industry etc. The Group will be focusing on the following aspects and improve overall competitiveness in the dynamic environment:

Firstly, paying close attention to the changes in macro-economic control measures, and making corresponding operating strategies in advance and taking precautions against risks effectively. Secondly, continuing being dedicated to the development of deposit and loan business, and optimizing the structure of deposit and loan and customer segment. Reducing capital cost and improving net interest spread. Thirdly, further advancing the strategic transformation and increasing resource input for personal finance service, small enterprise service and fee-based business services. Fourthly, continuing to emphasize on innovations and accelerating functional banking implementation. Attract customers with quality products and services. Lastly, continuing to improve risk management intensity and accelerating the construction and implementation of internal grading system. Enhancing the identification and monitoring of daily risks and achieving quality assets steadily.

5 OTHER INFORMATION

(1) Directors', supervisors', senior management's interests

As of 31 March 2007, none of the Bank's Directors, Supervisors, Chief Executive and their associates had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Bank or any of its associated corporations (under the definition of Part XV of the Securities and Futures Ordinance ("SFO")) of which the Bank and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") were required to be notified pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were deemed or taken to have under such provisions of the SFO), or which were required to be entered in the register pursuant to section 352 of the SFO, or of which the Bank and the Hong Kong Stock Exchange were required to be notified pursuant to Model Code for Securities Transactions by Directors of Listed Issuers of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

(2) Substantial shareholders

As at 31 March 2007, the substantial shareholders and other persons who have interests or short positions in the shares or underlying shares of the Bank as recorded in the register, which are required to be kept pursuant to section 336 of the SFO, are as follows:

Name of substantial shareholders	Capacity	Amount of domestic shares	Nature of interest *(Note 1)*	Approximate percentage of issued domestic shares (%)	Approximate percentage of total issued shares (%)
Ministry of Finance of the People's Republic of China	Beneficial owner	9,974,982,648	Long position	43.87	21.78

Name of substantial shareholders	Capacity	Number of H shares	Nature of interest *(Note 1)*	Approximate percentage of issued H shares (%)	Approximate percentage of total issued shares (%)
National Council for Social Security Fund of the People's Republic of China	Beneficial owner	5,555,555,556	Long position	24.09	12.13
China SAFE Investments Limited	Beneficial owner	3,000,000,000	Long position	13.01	6.55
The Hongkong and Shanghai Banking Corporation Limited	Beneficial owner	9,115,002,580	Long position	39.52	19.90
HSBC Asia Holdings BV	Interest of controlled corporations *(Note 2)*	9,115,002,580	Long position	39.52	19.90
HSBC Asia Holdings (UK)	Interest of controlled corporations *(Note 3)*	9,115,002,580	Long position	39.52	19.90
HSBC Holdings BV	Interest of controlled corporations *(Note 4)*	9,115,002,580	Long position	39.52	19.90
HSBC Finance (Netherlands)	Interest of controlled corporations *(Note 5)*	9,115,002,580	Long position	39.52	19.90
HSBC Holdings plc	Interest of controlled corporations *(Note 6)*	9,115,002,580	Long position	39.52	19.90

Notes:

1. Long positions held other than through equity derivatives.
2. HSBC Asia Holdings BV holds 88.86% equity of the Hongkong and Shanghai Banking Corporation Limited. Pursuant to the SFO, HSBC Asia Holdings BV is considered to own the 9,115,002,580 H shares of the Bank which are held by Hongkong and Shanghai Banking Corporation Limited.
3. HSBC Asia Holdings BV is wholly-owned by HSBC Asia Holdings (UK). Pursuant to Note (2) and the SFO, HSBC Asia Holdings (UK) is considered to own the 9,115,002,580 H shares of the Bank which are held by the Hongkong and Shanghai Banking Corporation Limited.
4. HSBC Asia Holdings (UK) is wholly-owned by HSBC Holdings BV. Pursuant to Notes (2), (3) and the SFO, HSBC Holdings BV is considered to own the 9,115,002,580 H shares of the Bank which are held by the Hongkong and Shanghai Banking Corporation Limited.
5. HSBC Holdings BV is wholly-owned by HSBC Finance (Netherlands), which also directly holds 8.53% equity of the Hongkong and Shanghai Banking Corporation Limited. Pursuant to Notes (2) to (4) and the SFO, HSBC Finance (Netherlands) is considered to own the 9,115,002,580 H shares of the Bank which are held by the Hongkong and Shanghai Banking Corporation Limited.

6. HSBC Finance (Netherlands) is wholly-owned by HSBC Holdings plc, which also directly holds 2.61% equity of the Hongkong and Shanghai Banking Corporation Limited. Pursuant to Notes (2) to (5) and the SFO, HSBC Holdings plc is considered to own the 9,115,002,580 H shares of the Bank which are held by the Hongkong and Shanghai Banking Corporation Limited.

Save as disclosed above, as at 31 March 2007, in the register required to be kept under section 336 of the SFO, no other persons or corporations were recorded as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(3) Employees

As at 31 March 2007, the Bank had a total of 61,995 employees. The employees' remuneration packages include basic salary and discretionary bonus. Of which, basic salary is calculated and distributed monthly based on attendance and performance of the individual while the discretionary bonus is distributed based on overall annual performance of the individual together with the relevant branch and the Bank.

(4) Purchase, sale or redemption of shares of the bank

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

(5) Code on corporate governance practices

The Group made a great effort to establish a high standard of corporate governance. The Group believes that effective corporate governance is crucial to maximizing the value for shareholders. In order to maintain a high standard of corporate governance, the Bank established a responsible, professional and accountable Board of Directors and Board of Supervisors with experienced Senior Management. The members of the Bank's Board of Directors and Board of Supervisors, except employee supervisors, are elected by the shareholders at the Shareholders' General Meeting. The Bank has established four special committees under the Board of Directors, including the strategy committee, the audit committee, the risk management committee, and the personnel and compensation committee. None of the Bank's Directors is aware of any information that would reasonably indicate that the Bank had not, for any time of the period ended 31 March 2007, been in compliance with the code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

(6) Directors and supervisors comply with the model code for securities transactions by directors

The Group adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. The Bank made specific enquiries with all the directors and supervisors and each of them confirmed that they had complied with the required standards of the Model Code during the Period.

(7) The audit committee

The Group has established an audit committee in accordance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review the Bank's internal and external audit work, to examine and approve financial reports, and oversee the implementation of the internal control policies as well as the efficiency and compliance thereof. The committee comprises five members, three of whom are Independent Non-executive Directors namely Li Ka-cheung, Eric, Xie Qingjian, and Chen Qingtai; and two are Non-executive Directors namely Wong Tung Shun, Peter and Li Zexing. Mr. Li Ka-cheung, Eric is the chairman. The committee, together with the senior management, has reviewed the accounting policies and practices adopted by the Bank, and discussed affairs regarding internal controls and financial reporting, including reviewing the First Quarter Results.

(8) The first quarter results approval

During the Period, the Group's condensed consolidated financial statements prepared in accordance with IFRS was reviewed by PricewaterhouseCoopers, considered and approved by the Board of Directors and the audit committee.

By order of the Board
Bank of Communications Co., Ltd.
Jiang Chaoliang
Chairman

Shanghai, PRC, 30 May 2007

As at the date of this announcement, the directors of the Bank are Mr. Jiang Chaoliang, Mr. Li Jun, Mr. Peng Chun, Mr. Zhang Jixiang, Mr. Hu Huating*, Mr. Wong Tung Shun, Peter *, Ms. Laura M Cha*, Mr. Li Keping*, Mr. Li Zexing*, Mr. Gao Shiqing*, Mr. Shen Weiming*, Mr. Li Guanglin*, Mr. Qian Ping*, Mr. Xie Qingjian#, Mr. Ian Ramsay Wilson#, Mr. Thomas Joseph Manning#, Mr. Chen Qingtai#, and Mr. Li Ka-cheung, Eric#.*

* *Non-executive Directors*
\# *Independent Non-executive Directors*

Please also refer to the published version of this announcement in ***South China Morning Post.***