交通銀行
BANK OF COMMUNICATIONS

Bank of Communications Co., Ltd.

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

(Stock Code: 3328)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

The board of directors of Bank of Communications Co., Ltd. (the "**Bank**") is pleased to announce the audited consolidated results (the "**Annual Results**") for the year ended 31 December 2007 (the "**Reporting Period**") of the Bank and its subsidiaries (the "**Group**"), which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board. The board of directors of the Bank and its audit committee have reviewed and adopted the Annual Results.

1. CORPORATE INFORMATION

1.1 Stock Exchange on which shares are listed:

A shares of the Bank ("**A Shares**"), Shanghai Stock Exchange
H shares of the Bank ("**H Shares**"), The Stock Exchange of Hong Kong Limited

1.2 Stock Name and Code:

A Shares: Bank of Communications, 601328
H Shares: BANKCOMM, 3328

1.3 Secretary of the Board of Directors: Zhang Jixiang

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2. MAJOR FINANCIAL DATA AND INDICATORS

The financial data and indicators in respect of the Group's Annual Results for the year ended 31 December 2007 prepared under IFRS are as follows:

2.1 Major accounting data and financial indicators

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

	As at 31 December 2007	As at 31 December 2006	Change (%)
Total assets	**2,110,444**	1,719,483	22.74
Including: loan (less impaired allowance)	**1,085,724**	910,307	19.27
Total liabilities	**1,977,123**	1,628,988	21.37
Including: customer deposits	**1,567,142**	1,352,890	15.84
Shareholder's equity	**133,321**	90,495	47.32
Shareholder's equity (eliminate the minority interest)	**132,903**	90,436	46.96
Net assets per share (eliminate the minority interest, in RMB Yuan)	**2.71**	1.97	37.56
Net interest income	**54,144**	39,803	36.03
Operating profit before tax	**31,114**	17,405	78.76
Net profit (eliminate the minority interest)	**20,274**	12,274	65.18
Diluted earning per share (in RMB Yuan)	**0.42**	0.27	55.56
Net cash flow from operating activities	**31,247**	165,485	(81.12)

	%	%	Change (percentage point)
Return on average total assets note 1	**1.06**	0.78	0.28
Return on average shareholder's equity note 2	**18.16**	14.15	4.01
Cost to income ratio note 3	**40.29**	47.66	(7.37)
Impaired loan ratio note 4	**2.05**	2.53	(0.48)
Provision coverage of impaired loans	**95.95**	72.83	23.12
Capital adequacy ratio note 5	**14.44**	10.83	3.61

Notes:

1. This is calculated by dividing net profit of the Reporting Period by the average of total assets at the beginning and at the end of the Reporting Period.

2. This is calculated by dividing net profit of the Reporting Period by the average of shareholder's equity balance (eliminating the minority interest) at the beginning and at the end of the Reporting Period.

3. This is calculated by dividing other operating expenses by 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).

4. This is calculated by dividing the balance of impaired loans by the balance of loans before provisions at the end of the Reporting Period.

5. This is calculated in accordance with the guidelines issued by China Banking Regulatory Commission ("**CBRC**") and based on the methods of computation stipulated by the regulatory authorities.

2.2 Reconciliation of Net Assets and Net Profit from PRC GAAP to IFRS

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

(in millions of RMB)

	Net assets		Net profit	
	31 December 2007	31 December 2006 Restated	**2007**	2006 Restated
PRC GAAP figures	**128,797**	87,439	**20,641**	12,540
Adjustments for accounting standard differences:				
1. Revaluation surplus/deficit from fixed assets	**6,185**	4,631	**(128)**	(369)
2. Differences arising from the transfer of the non-performing loans to China Cinda Asset Management Corporation	**(329)**	(548)	**218**	212
3. Deferred taxes	**(1,492)**	(1,188)	**(315)**	(111)
4. Others	**160**	161	**(14)**	(3)
IFRS figures	**133,321**	90,495	**20,402**	12,269

Explanation of the adjustments for accounting standard differences:

- **Revaluation surplus/deficit from fixed assets**

  In 2007, the Group 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 valuation has been reflected in IFRS financial statements, while it is not recognized in PRC GAAP financial statements. The difference arising from the fixed assets revaluation exercise has been reflected as an accounting standard difference accordingly. Such difference will be depreciated during the remaining beneficiary period.

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

  On 27 June 2004, the Group disposed of non-performing loans (the "**Transferred Loans**") to China Cinda Asset Management Corporation in exchange for the bills (the "**Bills**") issued by the People's Bank of China ("**PBOC**"). 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. However, the Bills were carried at face value under PRC GAAP. The discount will be amortized and recorded as interest income from securities during the remaining beneficiary period of the Bills.

- **Deferred taxes**

  In both PRC GAAP and IFRS financial statements prepared by the Group, 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.

- **Others**

  All other differences are adjustments with minor amounts.

3. DETAILS OF CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

3.1 Details of Changes in Share Capital

As at 31 December 2007, the Bank had a total of 418,217 shareholders, of which 369,743 were holders of A Shares and 48,474 were holders of H Shares.

	1 January 2007		Increase/decrease as a result of the change					31 December 2007	
	Number of shares	Percentage (%)	Shares issued	Bonus shares	Shares transferred from the surplus reserve	Others	Sub-total	Number of shares	Percentage (%)
I. Shares subject to restriction on sales									
1. State-owned shares	13,181,997,864	28.78	–	–	–	–	–	13,181,997,864	26.91
2. Shares held by State-owned legal persons	7,329,448,924	16.00	–	–	–	–	–	7,329,448,924	14.96
3. Shares held by other domestic investors									
Comprising.:									
Shares held by domestic non state-owned legal persons	2,204,427,331	4.81	1,595,176,487	–	–	(638,071,341)	957,105,146	3,161,532,477	6.45
Shares held by domestic natural persons									
4. Shares held by foreign investors									
Comprising:									
Shares held by foreign legal persons	9,138,693,541	19.95	–	–	–	–	–	9,138,693,541	18.65
Shares held by foreign natural persons									
II. Shares not subject to restriction on sales									
1. RMB-denominated ordinary shares	–	–	1,595,174,000	–	–	638,071,341	2,233,245,341	2,233,245,341	4.56
2. Domestic listed foreign shares	–	–	–	–	–	–	–	–	-
3. Overseas listed foreign shares	13,949,465,556	30.46	–	–	–	–	–	13,949,465,556	28.47
4. Others	–	–	–	–	–	–	–	–	-
III. Total	45,804,033,216	100	3,190,350,487	–	–	–	3,190,350,487	48,994,383,703	100

The Bank completed a successful initial public offering of 3,190,350,487 A Shares in April 2007 and such A Shares were listed on the Shanghai Stock Exchange on 15 May 2007, upon obtaining the approvals from the China Securities Regulatory Commission ("**CSRC**") and the Shanghai Stock Exchange. Upon completion of the A Share offering and as at 31 December 2007, the Bank had a total of 48,994,383,703 shares in issue, comprising 25,929,915,567 A Shares and 23,064,468,136 H Shares.

Particulars of Shareholdings of the Top 10 Shareholders subject to Restriction On Sales and Details of the Restriction

Pursuant to the Investor Rights Agreement entered into with the strategic investor, The Hongkong and Shanghai Banking Corporation Limited ("**HSBC**") at the listing of the Bank's H Shares, HSBC shall not sell or transfer the 7,774,942,580 shares of the Bank it subscribed on 18 August 2004 and the 1,340,060,000 shares of the Bank it subscribed during the H Share public offering until after 18 August 2008. Upon the completion of the Bank's H Share public offering, HSBC held an aggregate of 9,115,002,580 H Shares of the Bank.

As stated in the section headed "Restriction on Sales over the Shareholdings in the Bank held by the then Shareholders prior to this Offering and Voluntary Share Lock-up Undertaking" in the A Share prospectus, as of 31 December 2007, the total A Shares of the Bank in issue were 25,929,915,567, of which 23,696,670,226 shares are subject to restrictions on sales. Among these shares, the lock-up period of 13,243,135,005 shares will expire on 15 May 2008, the lock-up period of 478,552,573 shares will expire on 15 November 2008 and the lock-up period of 9,974,982,648 shares will expire on 15 May 2010.

Particulars of the Top 10 Shareholders Subject to Restrictions on Sales as at 31 December 2007:

Name of shareholder	Number of shares subject to restrictions on sales	Date on which shares become tradeable	Number of tradeable shares	Restrictions
Ministry of Finance of People's Republic of China	9,974,982,648	16 May 2010	9,974,982,648	36 months
The Hongkong and Shanghai Banking Corporation Limited	9,115,002,580	19 August 2008	9,115,002,580	contractual undertaking
Capital Airports Holding (Group) Company	985,447,500	16 May 2008	985,447,500	12 months
State Grid Corp of China	451,445,193	16 May 2008	451,445,193	12 months
Shanghai Tobacco (Group) Corp.	378,328,046	16 May 2008	378,328,046	12 months
Yunnan Hongta Group Co. Ltd.	346,787,979	16 May 2008	346,787,979	12 months
Sinopec Finance Company Limited	304,320,800	16 May 2008	304,320,800	12 months
Huaneng Capital Services Corporation Ltd.	268,501,276	16 May 2008	251,001,276	12 months
		16 November 2008	17,500,000	18 months
Daqing Petroleum Administration Bureau	233,151,118	16 May 2008	233,151,118	12 months
China National Cereals, Oils and Foodstuffs Corp.	213,106,024	16 May 2008	195,606,024	12 months
		16 November 2008	17,500,000	18 months

3.2 Particulars of Top 10 Shareholders and Top 10 Shareholders Not Subject to Restriction on Sales (according to the Bank's register of shareholders maintained at its share registrar)

1. Particulars of shareholding of the top 10 shareholders

Name of shareholder	Nature of Shareholders	Shareholding percentage (%)	Total number of shares held	Number of shares subject to restriction on sales	Number of pledged or frozen shares [note 1]
HKSCC Nominees Limited [note 2]	Foreign	22.02%	10,786,214,629	–	
Ministry of Finance of the People's Republic of China	State	20.36%	9,974,982,648	9,974,982,648	
The Hongkong and Shanghai Banking Corporation Limited [note 3]	Foreign	18.60%	9,115,002,580	9,115,002,580	
China SAFE Investments Limited	State	6.12%	3,000,000,000	–	
Capital Airports Holding (Group) Company	State-owned	2.01%	985,447,500	985,447,500	
State Grid Corp of China	State-owned	0.92%	451,445,193	451,445,193	
Shanghai Tobacco (Group) Corp.	State-owned	0.77%	378,328,046	378,328,046	
Yunnan Hongta Group Co. Ltd.	State-owned	0.71%	346,787,979	346,787,979	
Sinopec Finance Company Limited	Domestic legal person	0.62%	304,320,800	304,320,800	
Huaneng Capital Services Corporation Ltd.	State-owned	0.55%	268,649,276	268,501,276	

Notes:

1. The Bank is not aware of whether the shares held by the above shareholders have been pledged or frozen, nor the existence of any connections between the above shareholders.

2. This represent the aggregate number of shares held by HKSCC Nominees Limited as nominee for all institutional and individual investors that maintains an account with it as of 31 December 2007. According to the information provided by National Council for Social Security Fund, National Council for Social Security Fund held 5,555,555,556 H Shares of the Bank, representing 11.34% of the total issued share capital of the Bank and all these shares have been transferred to HKSCC Nominees Limited. (Similarly hereinafter)

3. According to the Bank's register of shareholders kept by Computershare Hong Kong Investor Services Limited, HSBC held 9,115,002,580 H Shares of the Bank as of 31 December 2007. In addition, according to the disclosure of interests form filed with The Stock Exchange of Hong Kong Limited by HSBC Holding plc., HSBC beneficially owned 9,312,013,580 H Shares of the Bank and, through its subsidiaries, indirectly held 69,470,681 H Shares as of 31 December 2007. In aggregate, HSBC held 9,381,484,261 H Shares of the Bank, representing 19.15% of the total issued share capital of the Bank. (Please refer to the section headed "3.3 Sustantial Shareholders and Holders of Interests or Short Positions Required to be Disclosed under Divisions 2 and 3 of Part XV of the Hong Kong Securities and Futures Ordinance" for details.) (Similarly hereinafter)

2. *Particulars of Shareholding of the Top 10 Shareholders not subject to restriction on sales*

Name of shareholder	Number of shares held	Shareholding percentage (%)	Type of shares
HKSCC Nominees Limited	10,786,214,629	22.02%	H Share
China SAFE Investments Limited	3,000,000,000	6.12%	H Share
Industrial and Commercial Bank of China – Nuoan Securities Investment Fund	100,592,929	0.21%	A Share
Bank of China – Dacheng Blue-chip Securities Investment Fund	44,619,457	0.09%	A Share
Taihe Securities Investment Fund	33,999,956	0.07%	A Share
Industrial and Commercial Bank of China – Nuoan Value Growth Securities Investment Fund	28,227,982	0.06%	A Share
Bank of China – Dacheng Wealth Management Lifecycle 2020 Securities Investment Fund	27,795,133	0.06%	A Share
China Merchants Bank Co., Ltd. – Everbright and Pramerica Advanced Configuration Securities Investment Fund	27,591,475	0.06%	A Share
Industrial and Commercial Bank of China – E Fund Value Growth Securities Investment Fund	23,524,761	0.05%	A Share
Industrial and Commercial Bank of China – Hua An Small and Medium-Cap Growth Securities Investment Fund	23,300,000	0.05%	A Share

Connected relations and concerted action between the above shareholders:	Save and except that certain of the above shareholders are managed by the same legal person, the Bank is not aware of any connected relations between the above shareholders or whether they are parties acting in concert.

3.3 Substantial Shareholders and Holders of Interests or Short Positions Required to be Disclosed under Divisions 2 and 3 of Part XV of the Hong Kong Securities and Futures Ordinance

As of 31 December 2007, the substantial shareholders and other persons (other than the Bank's directors, supervisors and chief executive) who 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 (the "**SFO**") are as follows:

Name of substantial shareholder	Capacity	Number of A Shares	Nature of interest note 1	Approximate percentage of issued A 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	38.47	20.36

Name of substantial shareholder	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	Beneficial owner	5,555,555,556	Long position	24.09	11.34
China SAFE Investments Limited	Beneficial owner	3,000,000,000	Long position	13.01	6.12
The Hongkong and Shanghai Banking Corporation Limited	Beneficial owner	9,312,013,580	Long position	40.37	19.01
	Interest of controlled corporations note 2	69,470,681	Long position	0.30	0.14
	Total:	9,381,484,261		40.67	19.15
HSBC Finance (Netherlands)	Interest of controlled corporations note 3	9,381,484,261	Long position	40.67	19.15
HSBC Bank plc	Interest of controlled corporations note 4	309,481	Long position	0.0013	0.0006
HSBC Holdings plc	Interest of controlled corporations note 5	9,381,793,742	Long position	40.67	19.15

Notes:

1. Long positions held other than through equity derivatives.

2. HSBC holds 62.14% interest in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to be interested in the H Shares which are held by Hang Seng Bank Limited.

   Hang Seng Bank Limited is deemed to be interested in the 69,470,681 H Shares held by its wholly-owned subsidiaries. Such 69,470,681 H Shares represent the aggregate of 7,139,564 H Shares indirectly held by Hang Seng Bank (Bahamas) Limited, 61,532,838 H Shares directly held by Hang Seng Bank Trustee International Limited and 798,279 H Shares directly held by Hang Seng Bank (Trustee) Limited.

   Hang Seng Bank (Bahamas) Limited is deemed to be interested in the 7,139,564 H Shares held by its wholly-owned subsidiary, Hang Seng Bank Trustee (Bahamas) Limited.

3. HSBC is wholly-owned by HSBC Asia Holdings BV. HSBC Asia Holdings BV is in turn wholly-owned by HSBC Asia Holdings (UK). HSBC Asia Holdings (UK) is in turn wholly-owned by HSBC Holdings BV. HSBC Holdings BV is in turn wholly-owned by HSBC Finance (Netherlands). Pursuant to the SFO, each of HSBC Asia Holdings BV, HSBC Asia Holdings (UK), HSBC Holdings BV and HSBC Finance (Netherlands) is deemed to be interested in the 9,381,484,261 H Shares which HSBC has an interest.

4. HSBC Financial Products (France) holds 309,481 H Shares. HSBC Financial Products (France) is held as to 58.25% by HSBC France and as to 41.75% by HSBC Securities (France) SA, a wholly-owned subsidiary of HSBC France. HSBC France is in turn wholly-owned by HSBC Bank plc. Pursuant to the SFO, each of HSBC Securities (France) SA, HSBC France and HSBC Bank plc is deemed to be interested in the 309,481 H Shares held by HSBC Financial Products (France).

5. HSBC Finance (Netherlands) and HSBC Bank plc are wholly-owned by HSBC Holdings plc. Pursuant to Note 2, Note 3, Note 4 and the SFO, HSBC Holdings plc is deemed to be interested in the 9,381,484,261 H Shares which HSBC has an interest and the 309,481 H Shares which the HSBC Bank plc has an interest.

Save as disclosed above, as of 31 December 2007, no person or corporation was recorded in the register required to be kept under section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and The Stock Exchange of Hong Kong Limited under Divisions 2 and 3 of Part XV of the SFO.

4. MANAGEMENT DISCUSSION AND ANALYSIS

During 2007, China's economy maintained a steady and rapid development; macro economy continued to develop well; capital markets were unprecedentedly active; the profits of the enterprises and individual wealth increased significantly – these provide good opportunities for the development of the Group. Macro-control measures brought various impacts on the economy and the market environment. The Group faced new challenges, resulting from the intensified competition in the industry, the increased market volatility and the changes in the needs of the customers. The Group actively responded to the changes in the macro economy and in the market and further deepened its strategic transformation. In addition, the Group adjusted and optimized its business strategies, deepened its internal reform, and speeded up its development of new businesses. Through these, the Group achieved a good and fast development in its various businesses.

4.1 Operation Overview

As of 31 December 2007, the Group's total assets were RMB2,110.444 billion, representing an increase of 22.74% as compared with the same at the beginning of the year. The Group realized a net profit of RMB20.274 billion, representing an increase of 65.18% as compared to the Group's net profit of the previous year. Return on average assets was 1.06% and return on average shareholders' equity was 18.16%, representing an increase of 0.28 percentage points and 4.01 percentage points, respectively, compared to the figures of the previous year. The capital adequacy ratio and core capital adequacy ratio (according to the formula promulgated by the regulatory authorities, same meaning below unless otherwise stated) were 14.44% and 10.27% respectively, representing an increase of 3.61 percentage points and 1.75 percentage points, respectively, when compared to the same at the beginning of the year.

4.2 Business Review

Various businesses developed rapidly, and the main indicators fully honored the promises to the market.

During the Reporting Period, the Group further increased its efforts to develop its businesses, and various businesses developed rapidly. As at the end of the Reporting Period, the Group's total assets was RMB2,110.444 billion, representing an increase of 22.74% as compared with the same at the beginning of the year; loans and advances to customers (before provision and including interest, same meaning below unless otherwise stated) amounted to RMB1,107.5 billion, representing an increase of 19.42% as compared with the same at the beginning of the year; customer deposits (including interest, same meaning below unless otherwise stated) amounted to RMB1,567.142 billion, representing an increase of 15.84% as compared with the same at the beginning of the year.

Benefiting from a continuous and rapid development of the business during the past three years since our listing (the Group was listed in Hong Kong on 23 June 2005), various indicators of the Group achieved an advanced level in the domestic industry, which fully honoured the promised made to the market at the time when the Group was first listed. As at the end of the Reporting Period, the return on assets and return on shareholders' equity of the Group were 0.96% and 15.25%, respectively, representing an increase of 0.25 percentage points and 1.68 percentage points, respectively, as compared to the same in the previous year, and an increase of 0.82 percentage points and 12.17 percentage points, respectively, as compared to the same in 2004, which shows that there was a continuous improvement in operational results. The percentage of retail business income was 13.76%, representing an increase of 1.40 percentage points as compared to the same in the previous year, and an increase of 3.66 percentage points as compared to the same in 2004. The balance of retail loan reached RMB172.474 billion, representing an increase of 36.75% as compared to the end of the previous year, and the proportion of the retail loan increased by 1.97 percentage points compared to the same at the end of the previous year and by 2.17 percentage points as compared to the same in 2004. This represents a remarkable transformation in the retail business. The impaired loan ratio decreased by 0.48 percentage points from 2.53% at the end of last year to 2.05%, representing a decrease of 0.95 percentage points as compared to the same at the end of 2004. This represents a continuous improvement in the quality of assets. The cost-to-income ratio reached 40.29%, a decrease of 7.37 percentage points as compared to that in the previous year, and a decrease of 20.49 percentage points as compared to the same in 2004, which shows a significant enhancement in the efficiency of the operation.

Business structure continues to optimize; the quality of the business and the level of interest margin improved consistently.

The credit orientation and customer structure of the Group were further optimized. Loans in competitive industries such as transportation, energy and infrastructure, mid and long-term loans with high return, loans to small enterprises and personal loans, all grew rapidly. At the end of the Reporting Period, the proportion of personal loans and domestic RMB mid- to long-term loans increased by 1.97 percentage points and 6.44 percentage points, respectively, as compared to the same at the beginning of the year. The proportion of domestic corporate loans with grade 1-5 increased by 2.47 percentage points as compared to the same at the beginning of the year.

Taking advantage of the rising interest rates in the market, the Group increased the proportion of bond assets in its treasury operation, focusing on the investment in national bonds and short-term credit coupons with higher credit ratings, and further optimizing the structure of its treasury operation. This significantly increased the rate of return on funds. At the end of the Reporting Period, RMB bond investment accounted for 25.58% in the total RMB funds of the Bank, representing an increase of 3.38 percentage points, as compared to the same at the beginning of the year.

The Group adjusted its liabilities structure actively, and developed the low costs current deposits and due to other banks and financial institutions. The Group controlled its cost of liabilities effectively. At the end of the Reporting Period, the Group's current deposits accounted for 59.16% of its total customer deposits, which represented an increase of 7.39 percentage points, when compared with the same at the end of last year. The balance of due to other banks and financial institutions accounted for 16.82% of its total liabilities, representing an increase of 2.33 percentage points when compared to the same at the end of previous year.

As a result of the continuous optimization of the portfolio of the assets and the liabilities and benefiting from the positive effects of various structural interest rise by the central bank, the Group's net interest income increased substantially and reached RMB54.144 billion, representing an increase of 36.03% as compared with the same in the previous year. The net interest spread and net interest margin were 2.79% and 2.86%, respectively, representing an increase of 9 basis points and 11 basis points when compared to that in the previous year. This shows a significant increase in the interest spreads.

Fee-based business achieves a significant growth, and revenue structure continues to optimize.

The Group continued to improve its revenue structure, and actively expanded its fee-based business, resulting in a rapid growth of its net fee and commission income. During the Reporting Period, the Group realized RMB7.095 billion of net fee and commission income, representing an increase of 137.21% as compared to the same in the previous year. This significantly exceeded the growth of net interest income. The net fee and commission income accounted for 11.30% of the net operating income, representing an increase of 4.48 percentage points when compared to the same in the previous year. The Bank realized RMB8.645 billion of non-interest income, an increase of 114.25% as compared to the same in the previous year. The non-interest income accounted for 13.77% of the net operating income, an increase of 4.57 percentage points as compared to the same in the previous year.

The Group seized opportunities in the rapid development of the capital markets, and expanded its fee-based business relating to the capital market. During the Reporting Period, the Group's fee income derived from its sale of funds reached RMB2.191 billion, representing an increase of RMB2.032 billion as compared to the same in the previous year and was 13.78 times the same in the previous year. This accounted for 26.57% of total fee and commission income, representing an increase of 22.15 percentage points as compared to the same in the previous year.

The Group continued to develop its traditional fee-based business. Its Pacific Credit Card business recorded an increase both in terms of card volume and the average spending amount per card. Revenue derived from the credit cards business reached RMB2.017 billion, representing an increase of 79.77%. The total transaction volume of international settlement was USD159.1 billion, representing an increase of 37% when compared to the same in the previous year, and 13.5 percentage points higher than the growth of the imports and exports of the foreign trade of the country in the same period.

In addition, the Group actively developed new type of business, and expanded the source of its fee-based business income. As at the end of the Reporting Period, the value of assets under the Group's custody reached RMB567.934 billion, representing an increase of 1.99 times when compared to the same in the previous year. The income derived from its custodian business was RMB530 million, an increase of 2.71 times when compared to the same in the previous year. The development of the investment banking business such as mainland enterprises IPO, short-term financing bonds, financial creditors underwriting and financial advisory service grew rapidly. The income derived from investment banking business was RMB338 million, representing an increase of 1.2 times when compared to the same in the previous year. The impact of the e-banking market continued to increase. The value of e-banking transaction for the year reached RMB24.8 trillion.

Leading position as a wealth management bank has been established on a preliminary basis, and strategic transformation has further been deepened

The Group continued its strategic restructuring, taking the leading position in establishing and promoting its wealth management banking business among its peers in China.

The Bank gradually introduced its wealth management service brands including "Win To Wealth"("蘊通財富") for corporate customers, "OTO fortune" ("沃德財富") for high-income individual customers, and "BoCom Fortune" ("交銀理財") for mid-income individual customers and a series of wealth management products such as "Delibao" ("得利寶"). This basically establishes a framework for the wealth management banking business.

The Group actively improved its wealth management banking channels. As at the end of the Reporting Period, "OTO fortune" outlets reached nearly 200, and the layout of its network effectively covered its major targeted wealth management clients. The Group also established a 24-hour cross time zone foreign exchange operating system. The Group is the second Chinese bank to integrate the foreign exchange transactions among Asia, Europe and America with all-day operation.

The Group actively expanded its business in respect of the mid to high income customers, whose contribution is ever-increasing. It became the driving force for business development. As at the end of the Reporting Period, the newly increased assets of the individual mid to high income customers amounted to RMB159.7 billion, accounting for 92.70% of all newly increased individual assets managed by the Group.

Active business and product innovation. Differentiation operation strategy achieved remarkable achievements.

During the Reporting Period, the Group seized the market hot spots, and developed new business and products. This gradually increased the differentiation and strengthened the Group's competitive advantages.

For business between bank and futures companies, the Group was the first bank to launch a national centralized fund transfer system between bank and futures companies and 80 companies has registered with this system. The Group successfully obtained the qualification as the sole custodian bank qualification for the futures investors' protection fund, and is actively preparing itself to become one of the first batch of financial futures special clearing member units. So far as investment banking is concerned, the Group accelerated its development of mainland enterprises IPOs, short-term financing bonds, financial creditors underwriting and financial advisory service. The Group acted as the lead underwriter of China's first financial bonds, and underwrote the offerings of three out of the first seven financial bonds. The Group's market share in the financial bonds underwriting business was the largest. In respect of the retail business, the Bank launched a series of new financial products such as Delibao ("得利寶"), "Xin Gu Sui Xin Da" ("新股隨心打") and "Ji Jin Ding Tou"("基金定投"). The sales of Delibao ("得利寶") over the year were RMB37.4 billion. In respect of promoting market-oriented interest rates, the Group led its peers in the industry by the introduction of the Shibor system, which linked the market-oriented pricing products such as discounted bills, interbank financing, currency swap and negotiated deposits with Shibor. In its custodian business, the Group launched and acted as a custodian of the first debt assets-backed products in the domestic insurance assets management industry.

Promote establishment of distribution channels and development of workflow process to continually improve standard of service.

The Group further enhanced service capacity and service quality through speeding up the development of outlets, increasing investment in self-service equipment, enhancing service supervision, and building a centralized customer service center. The Group established a provincial branch in Ningxia and four provincial sub-branches in prefectual-level cities where the economies are well developed. 31 new outlets were newly established. The Group also renovated and upgraded 772 outlets, and installed 2,000 new self-service machines. The total number of self-service machines reached approximately 9,000. The number of domestic self-service outlets reached 2,476. Centralized customer service center was built and was operating smoothly. The customers' call completion rate during daytime was over 90%, and there were significant improvements in the network distribution and the service environment.

At the same time, the Group actively promotes the functional banking implementation. The Group implemented the bank-wide centralised management with data centralised core accounting system as the important business parameter. The Group became the first bank in China adopting a centralized encrypted remittance service. This saved more than 1,000 back-office staff and effectively reduced the operating costs and operating risk and improved the service efficiency remarkably.

Breakthrough in internationalisation and comprehensive operations. Creating a basic cross-market operation.

The Group accelerated its expansion in overseas business and its overseas strategic operations. As a result of its active preparation, the Group officially opened its Frankfurt and Macau branches on 22 October 2007 and 1 November 2007, respectively. There are 7 overseas branches in total. All the overseas branches are operating well. At the end of the Reporting Period, the assets of the overseas branches reached USD17.363 billion, representing a growth of 20.38% as compared to the beginning of the year. The net profit was USD120 million, representing a growth of 10.09% as compared to the same in the previous year.

The Group promoted a comprehensive business, and accelerated its activities in investment and mergers and acquisitions. The Group set up two subsidiaries, namely Bank of Communications International Trust Co., Ltd. ("**BOCOM International Trust**") and Bank of Communications Financial Leasing Co., Ltd. ("**BOCOM Leasing**"). The Group, which made strategic investment in Jiangsu Changshu Rural Commercial Bank Co., Ltd. ("**CRCB**"), was the first listed bank in the country to invest in a rural financial institution. Business of subsidiaries grew rapidly that Bank of Communications Schroder Fund Management Co., Ltd. ("**BOCOM Schroder**"), China BOCOM Insurance Company Limited ("**BOCOM Insurance**") and BOCOM International Holdings Company Limited ("**BOCOM International**") delivered good business results, contributing RMB503 million to the net profit of the Group during the Reporting Period.

Based on the effective implementation of internationalisation and comprehensive strategy, the Group has set up a continually improving cross market business structure with its core business in the country and continuous expansion of its overseas operations; and a core commercial banking business supplemented by other financial organisations.

The comprehensive risk management was further promoted. Internal control and risk management capabilities were steadily improved.

During the Reporting Period, the Group further promoted a comprehensive risk management. The Group created innovative risk management tools, and speeded up our compliance to the standards under new Basel. The Group successfully launched various risk management tools, such as asset risk management system and internal rating method. The Group implemented "full consolidation" management over its subsidiaries, and strengthened the Group's overall risk management. The Group strengthened its collection and disposal of non-performing assets, and enhanced concentration and specialization of foreclosed assets. Non-performing assets of RMB13.4 billion were collected or disposed in the year. The Group further enhanced its internal control through the implementation of various systems and measures such as internal control scouts, appointment of the responsible accountants, distant remote monitoring of risks in accounting process with real-time alarm notification, and IT system risk inspections.

As a result of its sound risk management and internal control, the Group did not invest in US sub-prime mortgage bonds and was not directly affected by the sub-prime mortgages crisis. At the same time, the Group further enhanced the quality of its loans. The amount of its impaired loans continued to decline, and the impairment loan ratio further declined to 2.05%. The provision coverage was 95.95%, representing an increase of 23.12 percentage points from the end of the previous year. The provision coverage for impaired loans reached 142.82% when the statutory general provision of RMB10.636 billion was taken into account.

Budget management and cost control continued to be strengthened and the level of profitability increased significantly.

While the Group achieved a rapid growth in various businesses, it continued to intensify its efforts on budget management and cost control. During the Reporting Period, operating expenses of the Group amounted to RMB25.295 billion, representing an increase of 21.06% as compared with that of the previous year. The increase in the operating expenses is significantly less than that of the net operating income. The cost to income ratio reached 40.29%, representing a decrease of 7.37 percentage points as compared with that of the previous year. Operational efficiency further enhanced. Benefiting from the substantial growth in revenue and effective cost control, the Group's profitability significantly improved and realised a net profit of RMB20.274 billion during the Reporting Period, representing an increase of 65.18% from the previous year or an increase of 76.52% as compared to the previous year if the impact of the one-time income tax charge of RMB1.392 billion is not taken into account. The level of profitability reached a record high.

A successful return to the A Share market and the issue of subordinated debt further enhanced the capital and financial strength.

The Group implemented its capital plan orderly, thus resulting a more comprehensive capital replenishment mechanism. During the Reporting Period, the Group successfully returned to the A Share market raising RMB24.750 billion and at the same time issued subordinated debt of RMB25 billion in the inter-bank market for the first time. The total capital was increased and the capital structure was improved. As at the end of the Reporting Period, the capital adequacy ratio reached 14.44%, representing an increase of 3.61 percentage points compared with that at the beginning of the year. The core capital adequacy ratio reached 10.27%, representing an increase of 1.75 percentage points as compared to that at the beginning of the year. The capital adequacy ratio increased remarkably as compared to the beginning of the year. As both capital and financial strength are improving, the market capitalisation of the Group has been increasing and reached approximately RMB700 billion as at the end of the Reporting Period, ranking the Group within the top 20 among global banks.

The Bank continued to deepen its strategic cooperation with HSBC. Mutual benefit led to a win-win situation.

The Group and HSBC Group continued to deepen their strategic cooperation which has achieved increasingly remarkable results. In respect of technical cooperation, five experts from HSBC provided guidance to the Group and 11 personnel were seconded to work with the Bank. During the Reporting Period, 30 senior management personnel from the Group attended on-site training at HSBC, and 438 man-times attended the lectures and training courses conducted by HSBC. As at the end of the Reporting Period, a total of 1,109 man-times has attended the lectures and training courses conducted by HSBC. In addition, the technical cooperation and exchange agreement entered into between the Group and HSBC has been renewed for a term of three years and the manner of cooperation has been changed from one-way technical support to mutual exchange. In terms of business cooperation, it has been carried out in various areas such as corporate, international and renminbi treasury business and there are a total of 55 cooperation projects involving 47 types of specific products. Cooperation in credit card business has achieved new progress. As at the end of the Reporting Period, the total number of credit cards issued exceeded 5 million, representing an increase of more than 3 million cards as compared to the previous year, and the consumption per card exceeded RMB12,000. Regarding the equity cooperation, HSBC proactively increased its shareholding in the Bank to 19.15% by making purchase in the secondary market in Hong Kong upon the completion of the A Share listing of the Bank. In addition, both parties are actively working on the establishment of their credit card joint venture and pension joint venture.

Achievements in reform and development won wide recognition. Both market image and reputation have been enhanced considerably.

Since the listing of the Group, the achievements in reform and development of the Group over these three years won wide recognition both domestically and internationally, and our market image and reputation have been enhanced considerably. The Group was awarded the "Best Bank in China" by authoritative international financial magazines "Euromoney". The Bank was named as the "Best Corporate Governance Bank" and the "Best Innovative Management Bank" by the magazine "Banker". The Bank received the "Best Wealth Management Award" at "The 21st century Asian Financial Annual Meeting and 2007 Asian Bank Competitiveness Rankings". The "Delibao" series of financing products received the "Best Innovation Award for RMB Financial Products" presented by the magazine "Money Weekly" and the Group was awarded by World Brand Lab with the honorable title of "Chinese Brands Annual Award (No.1)" in the bank category for the third consecutive year.

4.3 Financial Results

4.3.1 Operating profit before tax

For the year ended 31 December 2007, operating profit before tax was RMB31.114 billion, representing an increase of RMB13.709 billion or 78.76% over the last year. The operating profit before tax derived mainly from net interest income and net fee and commission income.

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

(in millions of RMB)

	As of 31 December	
	2007	2006
Net interest income	**54,144**	39,803
Net fee and commission income	**7,095**	2,991
Impairment losses on loans and advances	**(6,380)**	(5,538)
Operating profit before tax	**31,114**	17,405

4.3.2 Net interest income

For the year ended 31 December 2007, the Group realized net interest income of RMB54.144 billion, representing an increase of RMB14.341 billion or 36.03% as compared with 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:

(in millions of RMB, except percentages)

	As of 31 December	
	2007	2006
Interest Income		
Balances with central canks	**3,438**	2,096
Due from other banks and financial institutions	**5,971**	4,863
Loans and advances to customers	**65,417**	46,599
Investment securities	**15,493**	10,985
Total interest income	**90,319**	64,543
Interest expense		
Due to other banks and financial institutions	**(10,182)**	(5,425)
Due to customers	**(25,993)**	(19,315)
Total interest expense	**(36,175)**	(24,740)
Net interest income	**54,144**	39,803
Net interest spread *(Note 1)*	**2.79%** *(Note 3)*	2.70% *(Note 3)*
Net interest margin *(Note 2)*	**2.86%** *(Note 3)*	2.75% *(Note 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 the Group's total average interest-bearing liabilities.

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

3. This eliminates the impact of wealth management products.

Net interest spread and net interest margin increased as compared with the previous year. The main reasons are: (1) the asset and liability structure has been further optimized. The proportion of the medium and long term loans, retail loans and loans to small enterprises increased, and the proportion of current deposits also increased continuously; (2) the PBOC has revised the benchmark loan interest rate for six times, and such revision was favourable to the increase in return on loans and advances to customers. Return on loans and advances to customers increased by 63 basis points as compared to the previous year.

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

(in millions of RMB, except percentages)

	As of 31 December					
	2007			2006		
	Average balance *(Note 1)*	**Interest income**	**Average Yield/ (cost)**	Average balance *(Note 1)*	Interest expense	Average yield/ (cost)
Assets						
Cash and balances with central banks	**230,754**	**3,438**	**1.49%**	146,190	2,096	1.43%
Due from other banks and financial institutions	**170,501**	**5,971**	**3.50%**	142,158	4,863	3.42%
Loans and advances to customers	**1,033,547**	**65,417**	**6.33%**	818,166	46,599	5.70%
Of which: corporate loan	**833,761**	**53,171**	**6.38%**	629,514	37,557	5.97%
retail loan	**143,856**	**9,046**	**6.29%**	115,254	6,559	5.69%
discount bill	**55,930**	**3,200**	**5.72%**	73,398	2,483	3.38%
Investment securities and others	**468,799**	**15,493**	**3.30%**	351,993	10,985	3.12%
Total interest earning assets	**1,890,040** *(Note 2)*	**89,658** *(Note 2)*	**4.74%**	1,446,109 *(Note 2)*	64,005 *(Note 2)*	4.42%
Non interest earning assets	**89,867**			71,814		
Total assets	**1,979,907** *(Note 2)*			1,517,923 *(Note 2)*		

(in millions of RMB, except percentages)

	As of 31 December					
	2007			2006		
	Average balance (Note 1)	**Interest income**	**Average Yield/ (cost)**	Average balance (Note 1)	Interest expense	Average yield/ (cost)
Liabilities and shareholders' equity						
Due to customers	**1,503,688**	**25,993**	**1.73%**	1,248,240	19,315	1.55%
Of which: Corporate deposits	**999,427**	**16,382**	**1.64%**	810,976	12,122	1.49%
Retail deposits	**504,261**	**9,611**	**1.91%**	437,264	7,193	1.64%
Due to other banks and financial institutions	**297,787**	**8,690**	**2.92%**	155,499	4,851	3.12%
Subordinated bonds	**32,445**	**1,492**	**4.60%**	12,000	574	4.78%
Total interest bearing liabilities	**1,820,359** (Note 2)	**35,514** (Note 2)	**1.95%**	1,403,341 (Note 2)	24,202 (Note 2)	1.72%
Shareholders' equity and non interest bearing liabilities	**159,548**			114,582		
Total liabilities and shareholders' equity	**1,979,907** (Note 2)			1,517,923(2)		

Notes:

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

2. This eliminates the impact of wealth management products.

The table below shows 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.

(in millions of RMB)

	2007 vs 2006 Increase/(decrease) due to			2006 vs 2005 Increase/(decrease) due to		
	Volume	**Interest rate**	**Net increase/ (decrease)**	Volume	Interest rate	Net increase/ (decrease)
Interest-Earning Assets						
Cash and balances with central banks	**1,212**	**130**	**1,342**	305	(24)	281
Due from other banks and financial institutions	**970**	**138**	**1,108**	880	607	1,487
Loans and advances to customers	**12,267**	**6,551**	**18,818**	6,440	3,855	10,295
Investment securities and other	**3,645**	**863**	**4,508**	2,651	149	2,800
Change in interest income	**18,094**	**7,682**	**25,776**	10,276	4,587	14,863
Interest-Bearing Liabilities						
Due to customers	**3,953**	**2,725**	**6,678**	2,760	1,550	4,310
Due to other banks and financial institutions	**4,439**	**(600)**	**3,839**	1,695	629	2,324
Subordinated Bonds	**978**	**(60)**	**918**	(10)	27	17
Changes in interest expenses	**9,370**	**2,065**	**11,435**	4,445	2,206	6,651

4.3.3 Net Fee and Commission

For the period ended 31 December 2007, the Group achieved net fee and commission income of RMB7.095 billion, representing an increase of RMB4.104 billion or 137.21% compared to the previous year. The increase was primarily due to the following reasons: (i) sales of funds increased substantially. In 2007, commission income from fund sales accounted for 26.57% of the total fee and commission income, representing an increase of 22.15 percentage points compared to the previous year; (ii) the Pacific Credit Card business recorded simultaneous increases in card volume and consumption per card, giving rise to robust growth in card business income. Revenue from bank card business increased by 79.77% as compared to the previous year and its proportion reached 24.46%; (iii) the scale of and the revenue from the custodian assets increased rapidly. The scale of custodian assets reached RMB567.934 billion, representing an increase of 1.99 times from the previous year, while the bank realized custodian business income of RMB530 million, representing an increase of 2.71 times as compared to the previous year; (iv) the development of mainland enterprises IPO, short-term financing bonds, financial creditors underwriting and financial advisory are all accelerated. Revenue from investment banking operations reached RMB338 million, representing an increase of 1.2 times as compared to the previous year.

The table below sets forth the components and structures of the Group's fees and commission income for the periods indicated:

(in millions of RMB)

	As of 31 December	
	2007	2006
Settlement and agent service commission income	**1,744**	1,124
Bank card annual fee and commission income	**2,017**	1,122
Guarantee and commitment commission income	**399**	329
Custodian commission income	**530**	143
Fund sales commission income	**2,191**	159
Funds management commission income	**614**	118
Other commission income	**750**	599
	8,245	3,594

4.3.4 Other operating expenses

For the year ended 31 December 2007, other operating expenses of the Group amounted to RMB25.295 billion, representing an increase of RMB4.4 billion or 21.06% from the previous year.

The cost-to-income ratio of the Group continued its descending trend, from 47.66% in previous year to 40.29% of the Reporting Period, representing a decrease of 7.37 percentage points. The decrease was mainly due to a substantial increase in net operating income by 43.23%, which exceeded the 21.06% increase in operating costs. A series of cost control measures also contributed to these satisfactory results.

4.3.5 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 provisions for due from other banks and financial institutions as well as securities purchased under resale agreements.

The impairment losses on loans and advances increased from RMB5.538 billion in the previous year to RMB6.380 billion of the Reporting Period. The credit cost ratio reached 0.58%, representing a decrease of 0.02 percentage points from the last year.

4.3.6 Income tax

The table below shows a breakdown of the Group's current tax and deferred tax for the periods indicated:

(in millions of RMB)

	As of 31 December	
	2007	2006
Current Tax	**9,643**	7,139
Deferred Tax	**1,069**	(2,003)

For the period ended 31 December 2007, the Group and its subsidiaries which were established in the PRC are subject to the PRC statutory tax rate of 33%. The Group's Hong Kong branch and its subsidiaries in Hong Kong were subject to tax rate of 17.5% for the period ended 31 December 2007. The Group's overseas branches were subject to the income tax rates of the respective jurisdictions where they were located.

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 decreases from 33% to 25%. According to the International Accounting Standards No.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 of the change in the applicable tax rate, the Group suffered from a one-time increase of income tax of RMB1.392 billion for the period ended 31 December 2007.

4.4 Assets

As of 31 December 2007, the Group's total assets amounted to RMB2,110.444 billion, achieving an increase of RMB390.961 billion or 22.74% from the beginning of the year. The four principal components of the Group's assets were loans and advances to customers (after provision), investment securities, cash and balances with central banks and due from other banks and financial institutions, representing 51.45%, 25.88%, 12.39% and 7.40% of the Group's total assets, respectively.

The table below sets forth the outstanding balance of the principal components of the Group's total assets at the dates indicated:

(in millions of RMB)

	As of 31 December	
	2007	2006
Loans and advances to customers		
corporate loans [note]	**900,536**	725,892
retail loans [note]	**172,474**	126,128
discounted bills [note]	**31,480**	72,805
interest receivables	**3,010**	2,580
Loans and advances to customers before provision	**1,107,500**	927,405
Impairment losses on loans and advances	**(21,776)**	(17,098)
Loans and advances to customers	**1,085,724**	910,307
Assets held for trading	**19,445**	12,995
Investment securities	**546,096**	387,873
Cash and balances with central banks	**261,433**	253,941
Due from other banks and financial institutions	**156,110**	118,623

Note:

No provision has been made for impairment losses on corporate loans, retail loans and discounted bills.

4.4.1. Loan Business

The Group adheres to the China's macro-economic policies, strictly controlled its credit scale and rationally adjusted the pace of loan authorization so as to keep its loan business growing at an appropriate rate while capturing the good opportunities to further optimize its loan portfolio. As at 31 December 2007, the Group's total outstanding loans and advances to customers amounted to RMB1,107.5 billion, representing an increase of RMB180.095 billion or 19.42% from the beginning of the year. The loans to deposits ratio (excluding any interest receivable and interest payable) reached 71.00%, achieving an increase of 2.20 percentage points from the beginning of the year. Customer loans other than discounted bills (excluding any interest receivable) became the major component contributing to the surge of customer loans and advances. Such loans increased by RMB220.990 billion or 25.94% from the beginning of the year. Retail loans increased by RMB46.346 billion or 36.75% from the beginning of the year, which both were higher than the average increase of loans.

(1) Industry Concentration

In accordance with the country's energy saving and industrial emission reduction policy, the Group has revised its bank-wide loan authorization guidelines twice and issued seven policies covering industries including real estate, infrastructure construction, education and hospital. The Group has also implemented differentiated loan authorization management procedures in each domestic and overseas branch, namely "one branch one policy". The Group focused its credit resources on key business sectors such that its loan distribution can accommodate economic dynamics, industry structure upgrade and energy saving and environmental protection policies. In 2007, the Group increased its support to small and medium enterprises, energy saving and environment protection enterprises, independent innovation enterprises and "three rural" enterprises particularly. The increase in loans granted to these enterprises were much higher than the Bank's average increase in total loans. At the same time, the Group strictly controlled its lending to industries such as real estate, iron and steel. In addition, loans to customers in "high energy consumption and high emission" industries reduced by RMB7.8 billion.

The table below sets forth the industry distribution of loans and advances to customer of the Group as of the dates indicated:

(in millions of RMB, except percentages)

	As at 31 December			
	2007	**%**	2006	%
Corporate loans				
Manufacturing				
– Petroleum and chemical	**50,245**	**4.54%**	41,227	4.45%
– Electronics	**30,823**	**2.78%**	26,917	2.90%
– Steel	**29,345**	**2.65%**	26,448	2.85%
– Machinery	**38,725**	**3.50%**	25,592	2.76%
– Textile	**24,170**	**2.18%**	20,420	2.20%
– Other manufacturing	**123,860**	**11.18%**	100,141	10.80%
Transportation	**120,484**	**10.88%**	93,035	10.03%
Trading	**98,172**	**8.86%**	81,945	8.84%
Services	**99,617**	**8.99%**	79,630	8.59%
Real estate	**78,080**	**7.05%**	65,962	7.11%
Utilities	**85,457**	**7.72%**	63,289	6.82%
Construction	**48,805**	**4.41%**	35,961	3.88%
Educations and scientific research	**26,993**	**2.44%**	25,521	2.75%
Post and telecommunications	**11,078**	**1.00%**	11,456	1.24%
Agriculture	**2,609**	**0.24%**	2,440	0.26%
Non-banking financial institutions	**13,792**	**1.25%**	13,020	1.40%
Others	**18,281**	**1.65%**	12,888	1.39%
Corporate loans total	**900,536**	**81.32%**	725,892	78.27%

(in millions of RMB, except percentages)

	As at 31 December			
	2007	**%**	2006	%
Mortgage loans	**112,941**	**10.20%**	83,417	9.00%
Medium-term and long-term working capital loans	**22,709**	**2.05%**	17,626	1.90%
Short-term working capital loans	**11,333**	**1.02%**	10,321	1.11%
Car loans	**4,534**	**0.41%**	3,932	0.42%
Credit card advances	**7,929**	**0.72%**	2,054	0.22%
Loans secured by deposits	**–**	**–**	1,284	0.14%
Others	**13,028**	**1.17%**	7,494	0.81%
Individual loans total	**172,474**	**15.57%**	126,128	13.60%
Discounted bills	**31,480**	**2.84%**	72,805	7.85%
Interest receivables	**3,010**	**0.27%**	2,580	0.28%
	34,490	**3.11%**	75,385	8.13%
Gross amount of loans and advances to customers before allowance for impairment	**1,107,500**	**100.00%**	927,405	100.00%

(2) 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. The Group currently complies with these regulatory requirements.

The table sets forth the loan balances to the top 10 single borrowers of the Group during the periods indicated:

(in millions of RMB, except percentages)

		As at 31 December 2007	
	Industry	**Loan Balance**	**Proportion to total loans**
Customer A	Construction	4,379	0.40%
Customer B	Electricity	4,250	0.38%
Customer C	Transportation and Warehouse	4,145	0.37%
Customer D	Manufacturing	4,000	0.36%
Customer E	Services	3,361	0.30%
Customer F	Manufacturing	3,084	0.28%
Customer G	Post and telecommunications	3,050	0.28%
Customer H	Transportation and warehouse	3,012	0.27%
Customer I	Transportation and warehouse	3,000	0.27%
Customer J	Transportation and warehouse	2,980	0.27%
Top 10 customers total		35,261	3.18%

(3) Geographical Concentration

The Group's loans and advances to customers were 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 65.44% of the total loans and advances to customers outstanding (excluding interest receivable) as of 31 December 2007.

(4) Loan Quality

The Group continued to focus on risk management of key procedures. The Group has also expedited the progress of building its overall risk management framework and successfully introduced various risk management tools such as asset risk management system and corporate business internal grading system to further enhance its risk management techniques. Through its efforts, the Group further improved its loan quality. As at 31 December 2007, the impaired loan ratio was 2.05%, representing a decrease of 0.48 percentage points from the end of the previous year; the credit-cost ratio was 0.58%, representing a decrease of 0.02 percentage points from the previous year; the provision coverage of impaired loans increased from 72.83% as at the end of the previous year to 95.95%. Taking into account the statutory and general reserves of RMB10.636 billion, the Group's provision coverage of impaired loans stood at 142.82%.

A loan is impaired if there is objective evidence that not all amounts due would be recovered under the original contract terms of such loan. The table below sets forth certain information of the Group's individually identified impaired loans and loans overdue by more than 90 days as of the dates indicated:

(in millions of RMB, except percentages)

	31 December 2007	31 December 2006
Individually identified impaired loans	**22,694**	23,477
Loans overdue by more than 90 days	**19,708**	19,768
Loans with impairment to gross loans balance (percentage)	**2.05%**	2.53%

The Group has adopted two methods to assess impairment of loan portfolios: individual evaluation method and collective evaluation method. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate and the amount of the loss is recognized in the profit and loss account. If impairment is evaluated collectively, the provision for loan impairment are determined on the basis of the structure of the loan portfolio, historical loss experience for loans with credit risk characteristics similar to those in the Group, current economic conditions and the loss that existed in estimated loan portfolio.

As at 31 December 2007, the total impairment allowances for loans of the Group was RMB21.776 billion, representing an increase of RMB4.678 billion from the pervious year. In 2007, the amount of impairment allowances for loans made reached RMB6.615 billion, which was higher than that of 2006, being RMB5.748 billion, and the main reason was the rapid growth of the loan business.

The table sets forth movement in provisions for impaired loans of the Group as of the dates indicated:

(in millions of RMB)

	As at 31 December	
	2007	2006
Balance at the beginning of the year	**17,098**	12,601
Impairment allowances for loans charged to profit and loss account	**10,349**	8,980
Reversal of impairment allowances for loans	**(3,734)**	(3,232)
Unwind of discount on allowances	**(654)**	–
Loans written off during the year as uncollectible	**(1,121)**	(1,147)
Exchange differences	**(162)**	(104)
Balance at the end of the year	**21,776**	17,098

(5) Customer Structure

The Group strengthened the limits on comprehensive contribution indicators for its loan business to constantly optimize the customers' structure. As at 31 December 2007, corporate customers of the Group's domestic branches were classified based on the 10-class credit rating system. The outstanding loan balances to class 1 to class 5 high quality customers amounted to 74.37% of the total outstanding loan balance, increased by 2.47 percentage points from the beginning of the year; the outstanding loan balances to class 6 to class 7 customers amounted to 19.56% of the total outstanding loan balance, decreased by 1.04 percentage points from the beginning of the year; the outstanding loan balances to class 8 to class 10 high risk customers amounted to 2.33%, increased by 0.13 percentage points from the beginning of the year.

4.4.2 Treasury Business

Benefiting from the increase in market interests, the Group strengthened its fund management, optimized the structure of its treasury operation, enhanced its internal control and risk management, and the revenue from its fund management business has been increasing. With liquidity and security as prior concerns, the Group has further enhanced the efficiency of its fund management. As at 31 December 2007, the Group's average balance of investment securities amounted to RMB468.799 billion, increased by RMB116.806 billion or 33.18% from the previous year; the yield rate of investment securities reached 3.30%, increased by 18 basis points from the last year, which has effectively improved the profitability of the Group's assets.

4.5 Liabilities

As at 31 December 2007, the total liabilities of the Group reached RMB1,977.123 billion, increased by RMB348.135 billion or 21.37% from the beginning of the year. Customer deposits of the Group accounted for 79.26% of the total liabilities of the Group. The principal sources of funds were from corporate and individual deposits. The deposit structure of the Group was sound, which provided the Group with a stable funding source. During the Reporting Period, the amount of corporate deposits increased by 21.66% and accounted for 63.81% of the total deposits; the amount of individual deposits increased by 6.16% and accounted for 34.55% of the total deposits, thereby providing a stable funding source for loan and investment business.

The table below shows the Group's corporate and individual deposits as of the dates indicated:

(in millions of RMB)

	31 December 2007	31 December 2006
Corporate deposits	**1,000,040**	822,009
including: Corporate current deposits	**699,289**	512,030
Corporate saving deposits	**7,785**	6,151
Corporate time deposits	**292,966**	303,828
Individual deposits	**541,446**	510,034
including: Individual current deposits	**227,796**	188,299
Individual saving deposits	**14,295**	14,183
Individual time deposits	**299,355**	307,552

4.6 Business of the major subsidiaries and invested entities

During the Reporting Period, the Group established BOCOM International Trust and BOCOM Leasing and invested in CRCB. In 2007, BOCOM Schroder, BOCOM International and BOCOM Insurance (both BOCOM International and BOCOM Insurance are located in Hong Kong) achieved sound operating results and contributed significantly to the growth of the Group's profit.

1. BOCOM Schroder: It was established in August 2005 with registered capital of RMB200 million. The company is owned as to 65% by the Bank. During the Reporting Period, the assets managed by BOCOM Schroder grew from RMB292 million at the beginning of the year to RMB892 million and the net profit of the company reached RMB364 million.

2. BOCOM International Trust: It is a subsidiary acquired by the Bank in September 2007 and was originally established by the change of name of Hubei International Trust Investment Company Limited. It has a registered capital of RMB1.2 billion and is the first domestic trust company to be controlled by a commercial bank. The Bank's investment in the company amounted to RMB1.22 billion and holds 85% of its shares. The business scope of the company covers 11 major business categories including fund trust, asset trust, real estate trust and property trust.

3. BOCOM Leasing: It was established in December 2007 and was wholly-owned by the Bank with registered capital of RMB2 billion. The business scope of the Company mainly covers leasing of electricity, telecommunications and leasing of heavy equipment such as ships, aircrafts and other engineering equipments.

4. BOCOM International: In May 2007, the Group established BOCOM International and its subsidiaries including BOCOM Asset Management Limited, BOCOM International Securities Limited and BOCOM International (Asia) Limited upon the business restructuring and integration of BOCOM Securities Company Limited. The business scope of BOCOM International principally covers investment banking, stock brokerage as well as stock trading and investment. After the restructuring, the brokerage and investment banking businesses grew rapidly and the growth of the financing business has become a focal point. The company achieved a net profit of HKD225 million, increased by 2.63 times as compared with that of the previous year.

5. BOCOM Insurance: It was established in November 2000 and is principally engaged in the provision of property and accident insurance products. In June 2007, the company was renamed as China BOCOM Insurance Company Limited (formerly known as China Communications Insurance Company Limited). The company actively developed its liability insurance business, and by adapting the dynamics of the Hong Kong capital market, optimized its assets structure. Investment income increased rapidly. The company achieved a net profit of HKD51.03 million, representing an increase of 45.37% from the previous year.

6. Investment in CRCB: The Bank invested RMB380 million in CRCB, which represents 10% stake in CRCB, and became the largest shareholder of CRCB. In November 2007, the Group entered into the strategic cooperation agreement and technical support and business cooperation agreement with CRCB. The Bank obtained the formal approval for the acquisition from China Banking Regulatory Commission on 24 December 2007. The Bank has become the first major commercial bank in the PRC to strategically invest in a rural commercial bank.

   The table below sets forth the shareholding and financial positions of the Bank's major subsidiaries and invested entities during the Reporting Period:

(in millions of RMB)

Name of Major Subsidiaries	Registered Capital	Investment Amount of Investment	Percentage of Shareholding	Financial Position as at 31 December 2007 Total assets	Total liabilities	Net Assets
Bank of Communications Schroder Fund Management Co., Ltd	RMB200	RMB130	65%	RMB892.06	RMB223.18	RMB668.88
Bank of Communications International Trust Co., Ltd	RMB1,200	RMB1,220	85%	RMB1,275.44	RMB49.85	RMB1,225.59
Bank of Communications Financial Leasing Co., Ltd	RMB2,000	RMB2,000	100%	RMB2,006.15	RMB7.06	RMB1,999.09
BOCOM International Holdings Company Limited	HKD1,000	HKD800	100%	HKD3,832.01	HKD2,434.03	HKD1,397.98
China BOCOM Insurance Company Limited	HKD400	HKD400	100%	HKD602.79	HKD74.63	HKD528.16
Jiangsu Changshu Rural Commercial Bank Co., Ltd.	RMB518	RMB380	10%	RMB28,707.27	RMB26,854.25	RMB1,853.02

4.7 Capital Adequacy Ratio

As at 31 December 2007, the capital adequacy ratio of the Group was 14.44% and the core capital adequacy ratio was 10.27%, representing an increase of 3.61 percentage points and 1.75 percentage points from the end of the previous year, respectively. During the Reporting Period, the Group implemented its capital plan orderly. In the first half of 2007, the Group successfully issued subordinated debt in the amount of RMB25 billion and raised RMB24.75 billion through A Share listing. The capital of the Group has been effectively replenished. As a result, the capital adequacy ratio of the Group improved significantly as compared to the beginning of the year. In addition, the Group endeavoured to maintain solid and sound operation and this also helped to enhance the capital adequacy ratio.

The capital adequacy ratio is calculated in accordance with the guidelines promulgated by CBRC and based on the methods of computation stipulated by the regulatory authorities.

4.8 Segmental Operating Results

4.8.1 Segmental operating results by geographical segments

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

The table below sets forth the net profit and the total revenue from each of the Group's geographical segments during the periods indicated:

(in millions of RMB)

	As at 31 December			
	2007		2006	
	Net profit/ (loss)	**Total revenue** note 1	Net profit/ (loss)	Total revenue note 1
Northern China note 2	**2,950**	**16,717**	1,888	11,383
Northeastern China note 3	**829**	**6,002**	(770)	4,907
Eastern China note 4	**7,144**	**36,813**	4,809	25,502
Central and Southern China note 5	**4,313**	**18,702**	2,361	12,751
Western China note 6	**1,376**	**7,412**	1,011	5,642
Overseas note 7	**960**	**8,450**	797	6,241
Head Office	**2,844**	**19,483**	2,173	12,090
Eliminations	**(14)**	**(13,465)**	–	(9,335)
Total note 8	**20,402**	**100,114**	12,269	69,181

Notes:

1. Including interest income, fee and commission income, dividend income, gains less losses arising from trading activities, gains less losses 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 (excluding Head Office), 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, Yunan Province, Tibet Autonomous Region, Shaanxi Province, Gansu Province, Qinhai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region.

7. Including overseas subsidiaries and branches in Hong Kong, New York, Singapore, Tokyo, Seoul, Macau and Frankfurt.

8. Including minority interests.

4.8.2 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:

(in millions of RMB)

	31 December 2007		31 December 2006	
	Deposit note 1 **Balance**	**Loan** note 2 **Balance**	Deposit note 1 Balance	Loan note 2 Balance
Northern China	**270,655**	**209,844**	224,698	164,116
Northeastern China	**132,207**	**64,102**	126,292	58,739
Eastern China	**605,658**	**440,670**	507,109	369,300
Central and Southern China	**324,907**	**222,589**	284,003	182,059
Western China	**150,311**	**93,660**	132,305	81,658
Head Office	**636**	**9,110**	123	12,056
Overseas	**71,225**	**64,515**	69,647	56,897
Total	**1,555,599**	**1,104,490**	1,344,177	924,825

Notes:

1. Deposit balance excludes interest payable.

2. Loan balance excludes interest receivable.

4.8.3 Segmental operating results by business segments

The Group's business is mainly divided into four segments: corporate banking, retail and private banking, treasury operation and other businesses. Corporate banking segment remained the primary source of profit for the Group and accounted for 83.08% of the Group's total profit before tax. The table below shows the operating results of each of the Bank's business segments for the periods indicated:

(in millions of RMB)

	As at 31 December		
	2007	2006	**2007**
	Total Revenue	Total Revenue	**Operating profit before tax**
Corporate Banking	**60,479**	41,254	**25,848**
Retail and Private Banking	**13,772**	8,548	**5,628**
Treasury Operation	**25,405**	18,512	**1,940**
Other businesses	**458**	867	**(2,302)**
Total [note]	**100,114**	69,181	**31,114**

Note:

Including minority interests.

4.9 Risk Management

The Group actively promotes its comprehensive risk management and continuously improves its internal control systems to ensure the Group's secure and sound operation under a reasonable level of risk.

The Bank's board of directors is responsible for the Group's overall risk management strategy, the supervision of the Group's risk management and internal control systems, and the overall risk assessment of the Group. In accordance with the risk management strategies determined by the Board, the senior management develops and facilitates the implementation of appropriate risk management policies, systems and procedures. In 2007, the Bank established the role of Chief Risk Officer to assist the governor in leading the Group's comprehensive risk management work and enhancing its continuing development.

The Bank's Risk Monitoring Department, Asset Preservation Department, Credit Authorization Department, the five regional credit authorization center, Retail Credit Department, Asset and Liability Management Department and Legal and Compliance Department constitute the main functional departments of the Group's risk management for carrying out the Group's risk management policies and regulations. Through vertical management and a closely connected and centralised management of provincial and overseas branches, the head office manages and supervises the risk conditions of branches at all levels. Through bilinear matrix reporting mechanisms, the head office takes up the overall risk management and control across all lines of business.

The Group faces mainly credit risk, liquidity risk, market risk and operational risk during business operation. Market risk refers to foreign exchange risk, interest rate risk and other pricing risk.

Credit Risk Management

Credit risk is the risk of a borrower or counterparty failing to meet due contractual obligations. Credit risk exists primarily in corporate loan, retail credit and treasury operations of the Group.

The Group implements standardized management throughout the whole credit process, including credit check and reporting, credit authorization investigation and approval, loan drawdown, post lending supervision and non-performing loan management. The development, promotion and application of our internal credit rating system for corporate and retail loan, the wholesale application and regular updating of the credit risk management manual, the development and promotion of various risk management information systems and the continuous adjustment and optimization of our credit orientation and credit structure all contributed to the Group's timely and effective identification, measurement, monitoring and management of potential credit risk at various aspects.

1. Corporate loan credit risk management

   Credit Check and Reporting: The Group's credit officers are responsible for collecting credit application documents, carrying out pre-lending investigation, assessing credit risk of applicants and their business and giving credit rating recommendations.

   Credit Authorization Investigation and Approval: According to different credit authorisation limits, there are branch-level and regional credit authorization approval centers and head office credit approval system. Credit limit is determined after considering an applicant's credit standings, financial status, status of pledge and guarantee, overall credit risk of loan portfolio, macro-economic control policies as well as the requirements under the relevant laws and regulations. In 2007, taking advantage of the five regional credit authorisation centers which are close to the regional and local economy, the head office further strengthened its control over credit risk. At the same time, the Group closely followed the trend of state's macro-economic control, strengthened the management of state policies and guidelines on loan business and the regional differences and continuously improved the structure of our loan portfolio. During the Reporting Period, the credit business in relation to transportation, petroleum, petrochemical, equipment manufacturing, power grids and other supported industries was steadily developed, whereas the credit business in relation to concerned sectors such as real estate, iron and steel, textile and education was effectively controlled. The structure of our borrower portfolio was continuously optimized.

   Loan Drawdown: Loan Granting Centres at branch level are responsible for the Group's loan drawdown. A Loan Granting Centre assesses applications according to credit limits and ensures the legality, regularity, completeness and validity of the relevant loan documentations before the drawdown of the loan.

Post-lending monitoring: The Group's credit officers are responsible for regular and irregular post-lending monitoring. The Group has established a sound early warning system and implements daily risk monitoring via application of a series of tools and methods such as risk filtering, watch list and risk warning. In 2007, the launch and implementation of the Assets Risk Management System throughout the Bank further enhanced the post-lending risk filtering process, strengthened the management of the watch list and customers who are on the list and greatly improved the efficiency of post-lending risk monitoring. At the same time, the Group focused on the risk management of group customers and related parties. It strengthened the investigation of potential risk of group customers using the risk filtering process and actively promoted risks reduction strategies among the Bank's major group customers.

Non-performing Loan Management: The Group's Asset Preservation Department is responsible for the collection and disposal of the Group's corporate and retail non-performing loans. The Group handles non-performing loan by way of collection, restructuring, disposal of security, recourse to the guarantors, litigation, arbitration and write-off according to the regulatory requirements and endeavours to reduce the loss from credit risk suffered by the Group.

2. Retail loan credit risk management

Currently, the Group's Retail Credit Department employs a centralized management of credit risk of the Bank's retail loans. The Group attaches importance to the borrower's pre-lending credit check and business operation authenticity review. The loan drawdown of both retail loans and corporate loans are collectively managed at the Loan Granting Centres. The Group continuously strengthens its retail loan collection processes and transfers non-performing retail loans to Assets Preservation Department for collection or disposal.

The Group continually standardizes and improves the risk management of retail loans. It plans to establish and optimize a series of new policies, methods, tools and techniques based on the framework of internal controls, policies and systems, standard process and risk control measures in order to enhance the level of our retail business risk management in three years time.

In 2007, the Group implemented a series of concrete measures to continuously strengthen retail loan risk management, including: on-site inspection and implementation of major reporting policy to manage the overall status of retail business risk; improvement of the individual credit management system to intensify the monitoring and advance warning on daily risk; amending the retail loan manual to further regulate the retail operation process, establishment of risk inspection mechanisms to strengthen the prevention and control of the risk of fake mortgage, and introduction of the concept of watch list management to set in place an advance risk management control.

3. Credit risk classification and management methods

   For corporate loans, the Group determines impaired credit assets via its asset risk management system daily by using the three-tier risk filtering method and discounted cash flow to estimate the expected loss resulting from each corporate loan. For impaired credit assets, the Group formulates an action plan for each customer and appoints designated personnel to collect or dispose of such assets, and makes a provision for allowance of impairment loss according to the expected loss. For non-impaired corporate loans, taking into account customers' credit standings, financial status and repayment capability, the Group uses an internally developed 10-class credit rating system for management of such corporate loans. Customers with class 1-5 were considered by the Group as high-quality customers, class 6-7 were considered as general quality customers and class 8-10 were considered as risk quality customers. The Group adopts different business strategies depending on customers' different grading.

   The Group manages retail loans by category based on the overdue status and guarantee type. With regard to the non-overdue retail customers, the Group strengthens their management through regular visits to customers, and puts potentially higher risk customers into watch lists for exclusive management. For overdue retail customers, the collection approach differs according to overdue duration. Retail loans overdue for longer than a certain period of time are treated as impaired assets for management and impairment provisions are made accordingly.

4. Treasury credit risk management

   The Group maintains control limits on treasury operations with counterparties of other financial institutions, whose credit authorization are approved by the headquarter. Treasury credit risk is managed through a careful selection of counterparties, timely focus on risk, comprehensive reference to internal and external credit rating information, split-hierarchy credit grading system and examination and adjustment of credit limits using a real-time credit limit management system.

Liquidity risk management

Liquidity risk is the risk that the Group does not have sufficient liquidity to meet its payment obligations associated with its financial liabilities when they fall due. The Group's liquidity risk mainly arises from early or concentrated deposit withdrawals, borrowers' extended loan repayment and asset and liabilities maturity mismatch.

The Group manages liquidity risk centrally. Liquidity of the Bank is regularly reviewed by the Bank's Treasury department (for Renmenbi) and International Banking Department (for foreign currency) respectively to monitor the daily liquidity risk.

Based on forecasts of the liquidity requirement, the Group formulates appropriate liquidity management programs, conducts regular analysis of the macroeconomic situation, the central bank's monetary policy and the capital market activities and actively manages the liquidity of the Bank. Principal measures include: (1) maintaining liability stability and raising the proportion of core deposit in liabilities; (2) setting parameters and limits to monitor and manage the Bank's liquidity position and implementing centralized management and application of currency by the headquarter; (3) maintaining an appropriate proportion of central bank reserve, interbank overnight and highly liquid debt investment, and actively participating in open market, money market and bond market to ensure favorable financing capacity; (4) reasonably matching the assets maturity structure to avoid liquidity risk through multiple levels of liquidity portfolio; (5) signing overdraft contracts with other banks, and establishing early warning mechanisms and liquidity contingency plans.

As of 31 December 2007, indicators relating to the Bank's liquidity are as follows:

Major regulatory indicators		**As of 31 December 2007**	As of 31 December 2006	Change (percentage points)
Liquidity Ratio	RMB and Foreign Currency Combined	**27.07%**	33.62%	-6.55
Loan-to-deposit ratio	RMB	**62.60%**	60.55%	2.05
	Foreign Currency	**74.80%**	61.39%	13.41
Deposit reserve ratio	RMB	**3.76%**	11.55%	-7.79

Notes:

Liquidity ratio = Outstanding balance of current assets as of the end of the Reporting Period/Outstanding balance of current liabilities as of the end of the Reporting Period, which is calculated in accordance with CBRC's guidelines.

Loan-to-deposit ratio = Outstanding balance of various loans (excluding discounted bills) as of the end of the Reporting Period/Outstanding balance of the deposits as of the end of the Reporting Period.

Deposit reserve ratio = (Reserve in PBOC in excess of the regulatory requirements+ cash)/Outstanding balance of various RMB deposits.

In 2007, the factors affecting the Group's liquidity are mainly as follows: (i) due to the rapid development of the capital market, there is a change in the Group's deposit structure largely resulting from increased share of deposits from other banks. The instability of deposits from other banks increased the volatility of the Group's liquidity; and (ii) the PBOC's raising of its reserve ratio on 10 occasions by a total of 5.5 percentage points reduced the Group's available funds and resulted in an impact on the Group's liquidity.

Market Risk Management

Market risk refers to the risk of loss in on– and off-balance sheet positions of the Bank's operations as a result of adverse changes in market price. The principal types of market risk for the Group are interest rate risk, exchange rate risk and other price risks. Market risks exist in the Group's trading book and banking book.

As a specialised management department, the Group's Asset and Liability Management Department centralizes its market risk management. The Group has set up a market risk limits management system and has refined and standardized the market risk management processes and reporting mechanisms. Audit Department performs regular audits of market risk management.

The trading book records the Group's tradable financial assets and liabilities in treasury transaction including derivatives. The Group set up position limits to manage the market risk of the trading book. Primary controls include the setting up of transaction limits, stop-loss limits, exposure limits and risk limits on the trading book and a systematic monitoring of the limits. With respect to operation, the Group manages market risks of the portfolio in the trading book through the introduction of parameters such as duration, convexity and basis point combined with an analysis of the market environment and position distribution of the Group. Moreover, the appropriate use of financial derivatives and other transactions achieved the control and hedging of market risk in the trading book.

The banking book records the Group's non-tradable financial assets and liabilities. The primary market risk for the Group's banking book is mainly interest rate risk and exchange rate risk.

The Group uses the analysis of Value at Risk (VaR) for monitoring and measuring market risk in part of trading book. Sensitivity analysis is the Group's main method to assess and measure market risk in the trading book and banking book.

1. Interest rate risk

   Interest rate risk mainly arises from the impact on the fair value of tradable assets and liabilities arising from mismatches in the repricing periods of the Group's assets and liabilities and the movement of market interest rate. The Group performs regular monitoring of the gap in the repricing period with interest rate sensitivity through gap analysis system, taking the initiative to adjust the proportion of floating-rate and fixed-rate assets to manage the interest rate risk.

2. Exchange Rate Risk

   The Group's exchange rate risk mainly arises from trading risk of the Bank's trading and agency foreign exchange trading and the structural risk of maintaining certain foreign currency positions and operating overseas. Based on the Group's risk tolerance and operation status, it seeks to manage and control bank exchange rate risk by setting limits, by controlling and intensifying the matching of the currency structure of assets and liabilities and by appropriate application of financial derivatives instruments under the support of various trading systems and management information systems.

3. Other Price Risk

   Other price risk is largely derived from the equity investments held by the Group and other commodity price linked derivatives. Most equity investment arises from foreclosed assets or other historical reasons. The Group deems that other price risk faced by the Group is not significant.

Operational Risk

Operational risk refers to the direct or indirect risk of losses caused by inadequate or improper internal processes, systems, issues in human resources or external events. Under the leadership of the Board of Directors and senior management, the Group's Risk Management Department assists in forming the Bank's operational risk management system. Business and management departments at all levels perform their specific operational risk management functions within the scope of their responsibilities.

The Group focuses on managing the operational risk of accounting settlement, e-banking and information technology management and continually enhances operational risk prevention and control capacity on risky cases and case accountability.

The Group's accounting operational risk is managed under the model of "unified standard, three-level management". In 2007, the Group adopted factor lists for operational risk assessment and check as well as continuous improvement. The Group also explores and practises qualitative classification and quantitative grading standards of accounting for operational risk. It develops and applies accounting operational risk management systems and improves internal control systems covering almost all aspects of accounting and operational risk, thereby reducing significant accounting operational risks.

The Group has set up a monitoring system for e-banking operational risk in daily operations and has built long-term risk management mechanisms. In 2007, the Group reinforced management for operational risk in e-banking business through improving the management system, constantly optimizing e-banking operational processes, strengthening security measures of important transactions as well as intensifying management of e-banking account opening and early warning of risks.

The Group constantly standardizes and improves its information technology production system, strengthening the unified planning and management. In 2007, the Group upgraded its information technology operational risk management through establishing a sound IT management system and mechanism, strengthening professional standards for information technology management, establishing a local data backup center and implementing inspection mechanism in computer operation security.

In 2007, through intensified monitoring of policy implementation, the Group strengthened prevention, early warning and investigations of anti-fraud and operational risk cases, strictly regulated irregularities accountability and enhanced the digital control and management centralization of security guard. These factors help contribute to the avoidance of major significant economic events and accidents.

Anti-money Laundering

The Group has gradually set up an Anti-Money Laundering (AML) system based on its organisational infrastructure with internal control at its core and protected by the IT system platform. This has resulted in the strengthening of the Group's awareness of AML. In 2007, Shanghai branch and Beijing branch of the Group were both honoured for assisting case-handling agencies in tackling serious money laundering cases. Various lines and departments at all levels of the Group work together with joint efforts to build up a dragnet to prevent and combat money-laundering crimes.

4.10 Internal Control Management

In 2007, the Group continues to improve its internal control structure and promote comprehensive risk management in its bid to ensure that the internal control measures are effectively implemented.

Firstly, based on a platform of front, middle and back offices with clear duties assigned, mutual constraints, specialization and an integrated internal control system, the Bank continues to improve its structure with reference to the latest requirements for business development and risk management, and during the Reporting Period: established the role of Chief Risk Officer to strengthen comprehensive and integrated risk management, established the Investment Management Division to accelerate the pace of comprehensive operation and improve the management of strategic investment; re-integrated the retail business segments to promote the development of personal financing business and strengthen risk management of retail loans; established the Assets and Liabilities Management Department to enhance market risk management and promote the implementation of new capital agreement. at the same time, the Bank adjusted its second-tier institutions under ten departments such as Credit Authorization Department, Business Sales Department and the International Business Department to strengthen and rationalize the duties in these divisions and the internal constraints therein.

Secondly, based on a data centralization project, the Bank continues to develop systems for business development, management support and internal control and supervision, and gradually implement the computerization and electronic information access development of the Bank's overall business development and management. Firstly, a total of more than 20 business systems relating to teller counter, corporate, fiduciary, notes and treasury business have been launched. Secondly, systems for regulatory information delivery, data exchange, personnel recruitment and budgeting have been activated to accelerate information transmission and further improve management efficiency. Thirdly, more than 10 systems such as asset risk control, accounting operational risk management, anti-money laundering for monitoring of suspicious transactions, treasury back office and audit support are put into operation, which provide multi-directional enhancements to risk monitoring, investigation and early warning.

At the same time, in accordance with "2005-2007 comprehensive risk management framework," the Group continues to promote the implementation of various risk management measures. Firstly, for credit risk, the Group steadily promoted its internal rating project for corporate and retail business and a comprehensive updating of credit asset risk classification, and strengthened the monitoring of key risk industries and fields through measures such as issuing credit orientation guidelines, industry-specific guide and establishment of positions for retail loan risk examination. Secondly, for market risk, the Group strengthened the coordination and integration of RMB and foreign currency risk management, and established "Management Guideline on Classification of Financial Instruments in Treasury Business" to facilitate the management on financial instruments of the treasury business. The Group has completed the first phase of OPICS and has guardually integrated the back office processing platforms for Renminbi and foreign currency treasury business. The Group also strengthened the risk management of its notes business, promoted the "Operation Manual on Notes Business" and started to implement the scorecard management of notes business. Thirdly, for operational risk management, the Group optimized business processes to achieve concentration of parameter and ciphertext, retail business documentation integration and direct connection to the core banking system for corporate and retail business. At the same time as we continued to introduce accounting director appointment system, the Group has also started to introduce finance director appointment system. Meanwhile, the Group enhanced the monitoring of key aspects of operational risk such as cash, cashbox and reconciliation between bank and corporations. It has further improved the cashbox management regulations and reconciliation procedures between the Bank and corporations with the development of an electronic reconciliation system. Fourthly, for anti-money-laundering, the Group formulated "Anti-Money Laundering Management Policy" and the "Anti-Money Laundering Management Policy on Customer Risk Levels". It conducted onsite inspections of anti-money laundering work of some branches. Fifthly, for information technology, the Group was certified with ISO20000, an IT service and management system certification, and formulated management regulations for contingent events to strengthen the ability to deal with contingencies.

Through the effective implementation of the above measures, the Bank has further improved its internal control and risk management competency, and effectively promoted the sound development of various business with no major economic incidents or accidents during the year. In 2008, the Bank will continue to accelerate the building of a processing bank and promote operation process reengineering, optimize the risk management systems, gradually form "four internal control defenses – front office business department – specialized line management department – full-time risk management department – internal audit department"; strengthen market risk and liquidity risk management by further integrating market risk management framework and strictly preventing liquidity risks; further enhance compliance management and prevent operational risk; earnestly implement the country's macro-economic adjustment policies and perform well across its credit risk management activities.

4.11 2008 Outlook

In the outlook for the year 2008, the economic environment in which we operate will continue to undergo changes. Firstly, macro-economic control will be further strengthened. As a result, the Group's business development and asset quality will face more challenges. Secondly, competition with other banks will further intensify. Competition to attract high quality customers as well as new businesses will become more intense. The Group will have increasing cost pressures to meet the ever-changing and increasing demands for higher quality customer services. Thirdly, there will be more market fluctuation and the stability of business development will face new challenges. Fourthly, under the continued appreciation of Renminbi, the pressure from the shortage of foreign exchange and control of foreign exchange exposures may further increase. Fifthly, with further integration and more comprehensive operation, the Group's risk management and internal controls will face more challenges in a diversified operating environment.

Facing the above issues and challenges and based on the reform and development experiences accumulated over the past three years, the Group will launch a new three-year development plan in order to actively adjust its development approach, improve corporate governance, strengthen risk management, maintain operational compliance, enhance customer service ability, improve market competitiveness and achieve the goal of making Bank of Communications into a first-class public bank as well as the best wealth management bank. The Group will focus on the following key missions:

Firstly, we will identify profitable business opportunities, currently under-developed business and innovative business taking into account their current level of development and their future potential, adopt a diversified marketing strategy and security mechanism and achieve a more harmonious and stable development of each type of business. Secondly, we will further improve our network, strengthen distribution channels, accelerate product innovation, enhance wealth management functions and strive towards becoming the best wealth management bank. Thirdly, we shall earnestly implement macro-economic control policies, focus on transformation goals, optimize business structure and further improve operating management capability. Fourthly, we must optimize resources distribution and security, strengthen the development of operation networks, human resources as well as IT function and further improve service quality. Fifthly, we shall follow the guidance from comprehensive risk management plan for the next three years and further strengthen internal control and risk management by focusing on the development of processing bank. Sixthly, we should pay close attention to the US subprime mortgage crisis and its global economic impact, and take effective measures to positively cope with such. Finally, we must accelerate the business development of subsidiaries, construct a comprehensive operating platform with distinct features and work towards the overall improvement and develop synergy between the Bank and its subsidiaries.

5. OTHER EVENTS

5.1 Material Litigation and Arbitration

During the Reporting Period, there was no material litigation and arbitration that might have a significant adverse impact on the operation of the Bank.

5.2 The Bank's holding of shares in other listed companies, non-public financial institutions and other companies to be listed

Stock Code	Simplified Stock Name	Initial Investment Cost (yuan)	Shareholding Percentage	Term-end Cost (yuan)	Gain/Loss in Reporting Period	Equity movement in Reporting Period	Accounting Items	Source of shares
600068	Gezhouba	147,128,191.00	2.15%	550,803,940.00	316,239,222.18	403,675,749.00	AFS Securities	Foreclosed assets acquisition
600000	Pufayinhang	6,000,000.00	0.19%	432,644,784.00	–	426,644,784.00	AFS Securities	Investment acquisition
600635	Dazhonggongyong	1,000,000.00	0.99%	211,310,116.88	–	210,310,116.88	AFS Securities	Investment acquisition
000686	Dongbeizhengquan	3,740,000.00	0.38%	114,127,779.15	–	110,387,779.15	AFS Securities	Foreclosed assets acquisition
000691	ST Huandao	6,470,000.00	3.20%	94,203,200.00	–	87,733,200.00	AFS Securities	Investment acquisition
600642	Shennenggufen	10,283,333.33	0.18%	92,452,500.00	8,122,429.22	82,169,166.67	AFS Securities	Investment acquisition
000979	ST Keyuan	12,494,400.00	8.84%	64,444,800.00	–	51,950,400.00	AFS Securities	Foreclosed assets acquisition
600774	Hanshangjituan	8,400,000.00	4.02%	63,004,176.69	–	54,604,176.69	AFS Securities	Investment acquisition
600643	Aijiangufen	7,000,000.00	0.45%	59,147,385.32	–	52,147,385.32	AFS Securities	Investment acquisition
000001	Shenfazhan A	5,830,806.84	0.07%	57,899,814.72	–	52,069,007.88	AFS Securities	Investment acquisition
	Others	71,806,765.63		254,532,747.56		186,396,881.93		
	Total	280,153,496.80		1,994,571,244.32	324,361,651.40	1,718,088,647.52		

Notes:

1: The table above sets out the Group's holdings of shares in other listed companies recorded in the Group's long-term equity investment, and AFS securities;

2: Gain or loss in Reporting Period refers to the impact of such investments on the Group's consolidated net profit in the Reporting Period.

3. The table is prepared in accordance with the PRC GAAP.

5.3 Holding of shares in non-listed financial institutions

Name of issuer	Initial Investment Cost (Yuan)	Number of Shares held	Shareholding Percentage	Term-end Cost (Yuan)	Gain/Loss in reporting period (Yuan)	Equity Movement in reporting period (Yuan)	Accounting Items	Source of Shares
Yueyang City Commercial Bank Co., Ltd.	3,000,000.00	3,000,000.00	3.00%	0.00	0.00	0.00	AFS Securities	Equity Investment
Hainan Development Bank Co., Ltd.	4,000,000.00	4,000,000.00	6.67%	0.00	0.00	0.00	AFS Securities	Equity Investment
China Union Pay Co., Ltd.	90,000,000.00	90,000,000.00	5.45%	90,000,000.00	0.00	0.00	Long-term equity investment	Equity Investment
Changshu Rural Commercial Bank	380,000,000.00	380,000,000.00	10.00%	380,000,000.00	0.00	0.00	Long-term equity investment	Equity Investment
Total	477,000,000.00	477,000,000.00	–	470,000,000.00	0.00	0.00	–	–

Note: The table is prepared in accordance with the PRC GAAP.

5.4 Human Resource Information

As at the end of the Reporting Period, the Bank employed a total of 68,083 employees.

During the Reporting Period, the Bank continued to implement the new remuneration system under the principles of "ranking based on job duties", "remuneration based on position, and "bonus based on performance". The Bank has strengthened the Bank-wide performance-based bonus and incentive program, which leans towards the bank-wide key strategic businesses. The Bank implemented an annual remuneration adjustment policy with reference to market practice and performance. The Bank has committed itself in designing a corporate annuity plan with the characteristics of standardised principles and accruals, and centralised operation and payment. The comprehensive remuneration policy enhanced corporate loyalty as well as attract and maintain key personnel.

At the same time, the Bank actively reformed its performance evaluation management and continuously implemented the new performance evaluation management model based on a balance scorecard and working matrix. The Bank is also committed to enhancing the strategic connection of duties at various levels, strengthen the balance between financial and non-financial, long-term and short-term, external and internal, result and process, management performance and operation performance, objectively evaluate personal performance and gradually introduce a scientific and effective incentive mechanism.

5.5 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 Rules on Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The primary duties of the audit committee are to review the Bank's internal and external audit work, examine and approve financial reports, and oversee the implementation of the internal control policies and the efficiency and compliance of such.

As at the end of the Reporting Period, the audit committee comprised independent non-executive directors Mr. Li Ka-cheung, Mr. Gu Mingchao and Mr. Timothy D. Dattels, and non-executive directors Mr. Zhang Jixiang and Mr. Yang Fenglin. Independent non-executive director Mr. Li Ka-cheung serves as the Chairman of the audit committee. The audit committee (excluding Mr. Timothy D. Dattels, who resigned on 13 March 2008), 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 the review of the Annual Results.

5.6 Purchase, Sale or Redemption of the Shares of the Bank

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

5.7 Compliance with the Code on Corporate Governance Practices to the Listing Rules

The Group endeavoured to establish a high standard of corporate governance. The Group believes that effective corporate governance is crucial to maximising value for shareholders. In order to maintain a high standard of corporate governance, the Bank established a responsible, professional and accountable board of directors, board of supervisors and 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 also established five special committees under the board of directors, including the strategy committee, the audit committee, the risk management committee, the personnel and compensation committee and the social responsibility committee. None of the Bank's directors is aware of any information that would reasonably indicate that the Bank had not, for any time during the year ended 31 December 2007, been in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

5.8 Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Group adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") 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 Reporting Period.

5.9 Directors' and Supervisors' Rights to Acquire Shares

Name	Position	Shares as at 1 January 2007	Number of shares acquired during the year	Number of shares disposed during the year	Shares as at 31 December 2007	Reason
Li Jun	Supervisor	0	3,000	0	3,000	Subscription of new shares
Yang Dongping	Chief Risk Management Officer	0	75,000	0	75,000	Secondary market acquisition

Li Jun, Supervisor of the Bank, acquired 3,000 A Shares of the Bank by subscribing through Internet application and had been allotted such shares during the issue period. Yang Dongping, the Chief Risk Management Officer of the Bank newly appointed by the Board of Directors in September 2007, acquired 75,000 A Shares of the Bank through the secondary market on 15 May 2007. All of the above shares are subject to lock-up.

Save as disclosed above, as at 31 December 2007, none of the Bank's directors, supervisors, chief executive 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 (within the meaning of Part XV of the SFO) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO), or which had to be entered in the register required to be kept pursuant to Section 352 of the SFO, or which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code as set out in the Listing Rules.

5.10 Events after the balance sheet date

Mr. Timothy Daivd Pattels resigned as an independent non-executive director and a member of the Audit Committee of the Bank due to personal reasons with effect from 13 March 2008.

6. FINANCIAL STATEMENTS

6.1 Consolidated Profit and Loss Account

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

Group	For the year ended 31 December **2007**	2006
Interest income	**90,319**	64,543
Interest expense	**(36,175)**	(24,740)
Net interest income	**54,144**	39,803
Fee and commission income	**8,245**	3,594
Fee and commission expense	**(1,150)**	(603)
Net fee and commission income	**7,095**	2,991
Dividend income	**77**	123
Gains less losses arising from trading activities	**49**	(57)
Gains less losses arising from de-recognition of investment securities	**657**	58
Other operating income	**767**	920
Impairment losses	**(6,380)**	(5,538)
Other operating expenses	**(25,295)**	(20,895)
Operating profit before tax	**31,114**	17,405
Income tax	**(10,712)**	(5,136)
Net profit for the year	**20,402**	12,269
Attributable to:		
Shareholders of the Bank	**20,274**	12,274
Minority interest	**128**	(5)
	20,402	12,269
Basic and diluted earnings per share		
For profit attributable to the shareholders of the Bank **(in RMB Yuan)**	**0.42**	0.27

6.2 Consolidated Balance Sheet

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

Group	As at 31 December	
	2007	2006
ASSETS		
Cash and balances with central banks	**261,433**	253,941
Due from other banks and financial institutions	**156,110**	118,623
Financial assets held for trading	**19,445**	12,995
Loans and advances to customers	**1,085,724**	910,307
Investment securities – loans and receivables	**67,596**	48,050
Investment securities – available-for-sale ("AFS")	**147,573**	339,823
Investment securities – held-to-maturity ("HTM")	**330,927**	–
Property and equipment	**32,199**	26,284
Deferred tax assets	**2,524**	3,520
Other assets	**6,913**	5,940
TOTAL ASSETS	**2,110,444**	1,719,483
LIABILITIES		
Due to other banks and financial institutions	**332,556**	236,107
Financial liabilities held for trading	**10,028**	8,724
Due to customers	**1,567,142**	1,352,890
Other liabilities	**22,814**	16,151
Current taxes	**5,872**	2,501
Deferred tax liabilities	**504**	323
Subordinated term debt	**38,207**	12,292
TOTAL LIABILITIES	**1,977,123**	1,628,988
EQUITY		
CAPITAL AND RESERVES ATTRIBUTABLE TO THE BANK'S SHAREHOLDERS		
Share capital	**48,994**	45,804
Capital surplus	**43,100**	21,540
Other reserves	**20,422**	10,364
Retained earnings	**20,387**	12,728
	132,903	90,436
MINORITY INTEREST	**418**	59
TOTAL EQUITY	**133,321**	90,495
TOTAL EQUITY AND LIABILITIES	**2,110,444**	1,719,483

6.3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

			Other reserves								
	Share capital	Capital surplus	Statutory reserve	Discretionary 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
Losses from changes in fair value of AFS securities, net of tax	–	–	–	–	–	(1,695)	–	–	–	–	(1,695)
Transfer to net profit on disposal of AFS securities, net of tax	–	–	–	–	–	(41)	–	–	–	–	(41)
Revaluation of property	–	–	–	–	–	–	605	–	–	–	605
Translation difference on foreign operations	–	–	–	–	–	–	–	(125)	–	–	(125)
Revaluation reserve realization upon disposals	–	–	–	–	–	–	(262)	–	262	–	–
Net income/(expense) recognized directly in equity	–	–	–	–	–	(1,736)	343	(125)	262	–	(1,256)
Net profit	–	–	–	–	–	–	–	–	12,274	(5)	12,269
Dividends	–	–	–	–	–	–	–	–	(3,664)	–	(3,664)
Transfer to reserves	–	–	899	–	4,428	–	–	–	(5,327)	–	–
Balance at 31 December 2006	45,804	21,540	899	–	4,428	867	4,383	(213)	12,728	59	90,495
Balance at 1 January 2007	45,804	21,540	899	–	4,428	867	4,383	(213)	12,728	59	90,495
Gains from changes in fair value of AFS securities, net of tax	–	–	–	–	–	1,049	–	–	–	51	1,100
Transfer to net profit on disposal of AFS securities, net of tax	–	–	–	–	–	(483)	–	–	–	–	(483)
Revaluation of property	–	–	–	–	–	–	1,236	–	–	–	1,236
Translation difference on foreign operations	–	–	–	–	–	–	–	(403)	–	–	(403)
Realisation of revaluation reserve upon disposals	–	–	–	–	–	–	(20)	–	20	–	–
Tax rate change impact	–	–	–	–	–	118	506	–	–	–	624
Net income/(expense) recognized directly in equity	–	–	–	–	–	684	1,722	(403)	20	51	2,074
Net profit	–	–	–	–	–	–	–	–	20,274	128	20,402
Acquisition of new subsidiary	–	–	–	–	–	–	–	–	–	180	180
Dividends	–	–	–	–	–	–	–	–	(4,580)	–	(4,580)
Transfer to reserves	–	–	1,271	576	6,208	–	–	–	(8,055)	–	–
Issue of shares	3,190	21,560	–	–	–	–	–	–	–	–	24,750
Balance at 31 December 2007	48,994	43,100	2,170	576	10,636	1,551	6,105	(616)	20,387	418	133,321

6.4 CONSOLIDATED STATEMENT OF CASH FLOWS

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

	For the year ended 31 December	
	2007	2006
Cash flows from operating activities:		
Net profit before taxation:	**31,114**	17,405
Adjustments for:		
Impairment of loans and advances to customers	**5,961**	5,748
Write-back of due from banks and financial institutions	**(113)**	(117)
(Reversal)/charge impairment of other receivables	**(592)**	311
Impairment of investment securities	**692**	49
Depreciation of property and equipment	**2,665**	2,501
(Reversal of)/revaluation deficit of property and equipment	**(70)**	41
Amortization of prepaid staff subsidies	**15**	118
Amortization of prepaid rental expenses	**94**	180
Amortization of land use rights	**10**	3
Amortization of intangible assets	**223**	136
Gains less losses arising from de-recognition of investment securities	**(657)**	(58)
Gains on disposal of fixed assets	**(99)**	(54)
Amortisation of fair value re-measurement on AFS to HTM	**(122)**	–
Increase in the fair value of investment property	**(13)**	(16)
Losses on disposal of investment property	**–**	5
Accrued interest expense on subordinated term debt	**1,492**	636
Net increase in mandatory reserve deposits	**(96,069)**	(30,774)
Net (increase)/decrease in due from other banks and financial institutions	**(38,456)**	53,155
Net increase in financial assets held for trading	**(6,450)**	(9,767)
Net increase in loans and advances to customers	**(181,378)**	(157,282)
Net (increase)/decrease in other assets	**(128)**	3,748
Net increase in due to other banks and financial institutions	**96,449**	84,572
Net increase/(decrease) in financial liabilities held for trading	**1,304**	(831)
Net increase in due to customers	**214,252**	199,492
Net increase in other liabilities	**6,887**	1,548
Net increase in business tax payable	**508**	125
Income tax paid	**(6,272)**	(5,389)
Net cash from operating activities	**31,247**	165,485

	For the year ended 31 December	
	2007	2006
Cash flows from investing activities:		
Acquisition of subsidiary, net of cash acquired	**11**	–
Purchase of investment securities	**(536,749)**	(486,037)
Disposal or redemption of investment securities	**379,441**	409,884
Acquisition of intangible assets	**(191)**	(164)
Prepaid rental expenses	**(59)**	(145)
(Purchase)/disposal of land use rights	**(3)**	13
Purchase of property and equipment	**(7,227)**	(3,258)
Disposal of property and equipment	**636**	490
Disposal of investment property	**–**	586
Net cash used in investing activities	**(164,141)**	(78,631)
Cash flows from financing activities:		
Issue of shares	**24,750**	–
Subordinated debts issued	**25,000**	–
Interest paid on subordinated term debt	**(577)**	(636)
Dividends paid	**(5,311)**	(1,665)
Net cash (used in)/from financing activities	**43,862**	(2,301)
Effect of exchange rate changes on cash and cash equivalents	**(627)**	(135)
Net increase/(decrease) in cash and cash equivalents	**(89,659)**	84,418
Cash and cash equivalents at the beginning of the period	**185,723**	101,305
Cash and cash equivalents at the end of the period	**96,064**	185,723
Supplementary Information		
Interest received	**89,113**	63,798
Interest paid	**(31,853)**	(23,405)

6.5 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of presentation and accounting policies

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of investment securities classified as available for sale, financial assets and financial liabilities held at fair value through profit or loss, property and equipment, investment properties and all derivative contracts, which are revalued at fair value.

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

IFRS 7, Financial Instruments: Disclosures and the Amendment to IAS 1, Presentation of Financial Statements-Capital Disclosures (amended), are effective for annual accounting periods beginning on or after 1 January 2007.

IFRIC 9, Reassessment of Embedded Derivatives, is effective for annual periods beginning on or after 1 June 2006.

IFRIC 10, Interim Financial Reporting and Impairment, is effective for annual periods beginning on or after 1 November 2006.

Other amendments and interpretations that were effective for annual period beginning 1 January 2007 are not applicable to the Group's business operations.

The Group has chosen not to early adopt the following standards and interpretations that were issued but not yet effective for accounting period beginning on 1 January 2007.

(2) Net Interest Income

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

Group	**Year ended 31 December**	
	2007	2006
Interest income		
Balances with central banks	**3,438**	2,096
Due from other banks and financial institutions	**5,971**	4,863
Loans and advances to customers	**65,417**	46,599
Investment securities	**15,493**	10,985
	90,319	64,543
Interest expense		
Due to other banks and financial institutions	**(10,182)**	(5,425)
Due to customers	**(25,993)**	(19,315)
	(36,175)	(24,740)
Net interest income	**54,144**	39,803

	Year ended 31 December	
	2007	2006
Interest income accrued on loans and advances to customers individually identified with impairment	**654**	553

(3) Fee and Commission Income

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

Group	Year ended 31 December	
	2007	2006
Settlement and agent service commission income	**1,744**	1,124
Bank card annual fee and commission income	**2,017**	1,122
Guarantee and commitment commission income	**399**	329
Custodian commission income	**530**	143
Funds sales commission income	**2,191**	159
Funds management commission income	**614**	118
Other commission income	**750**	599
	8,245	3,594

(4) Impaired Losses

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

Group	Year ended 31 December	
	2007	2006
Due from other banks and financial institutions and securities purchased under resale agreements	**(113)**	(117)
Loans and advances to customers		
– Collectively assessed provision	**2,016**	1,207
– Individually assessed provision	**4,599**	4,541
	6,615	5,748
Less: recovery of loans previously written off	**(122)**	(93)
	6,380	5,538

(5) Income Tax Expense

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

Group	Year ended 31 December	
	2007	2006
Current tax		
– Mainland China income tax	**9,346**	6,706
– Hong Kong profits tax	**282**	188
– Overseas taxation	**15**	245
	9,643	7,139
Deferred tax	**1,069**	(2,003)
	10,712	5,136

The current 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 year ended 31 December 2007.

From 1 January 2008 the corporate income tax rate for Mainland China will be 25%.

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 year ended 31 December 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 year ended 31 December 2007.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation 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.)

	Year ended 31 December	
	2007	2006
Profit before tax	**31,114**	17,405
Tax calculated at a tax rate of 33%	**10,268**	5,744
Effect of different tax rates in other countries	**24**	(3)
Tax credit arising from income not subject to tax[Note 1]	**(1,332)**	(970)
Tax effect of expenses that are not deductible for tax purposes[Note2]	**360**	365
Tax rate change impact	**1,392**	–
Income tax expense	**10,712**	5,136

Notes:

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.

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

(6) Basic and Diluted Earnings per Share

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

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 year.

	Year ended 31 December	
	2007	2006
Profit attributable to shareholders of the Bank	20,274	12,274
Weighted average number of ordinary shares in issue	47,931	45,804
Basic and diluted earnings per share (expressed in RMB per share)	0.42	0.27

(7) 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 unsettled 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.)

Group and Bank	**Contract/notional Amount**	**Fair values Assets**	**Fair values Liabilities**
As at 31 December 2007			
Foreign exchange contracts	154,261	**1,653**	(2,620)
Interest rate contracts	87,565	**685**	(699)
Others derivative contracts	14	**–**	–
Total derivatives		**2,338**	(3,319)

Group and Bank	**Contract/notional Amount**	**Fair values Assets**	**Fair values Liabilities**
As at 31 December 2006			
Foreign exchange contracts	97,700	**161**	(138)
Interest rate contracts	40,897	**231**	(430)
Total 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 year end. 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 of these contracts by counterparties, industry sectors and countries. Actual credit exposures and limits are regularly monitored and controlled by management.

Credit risk weighted amounts

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

Group and Bank	As at 31 December 2007	2006
Derivatives		
– Exchange rate contracts	**846**	264
– Interest rate contracts	**287**	101
– Other derivative contracts	**2**	–
	1,135	365

The credit risk weighted amounts are the amounts calculated with reference to the guidelines issued by the China Banking Regulatory Commission ("CBRC") and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity characteristics of each type of contract.

Replacement costs

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

Group and Bank	As at 31 December 2007	2006
Derivatives		
– Exchange rate contracts	**1,653**	161
– Interest rate contracts	**685**	231
	2,338	392

Replacement cost is the cost of replacing all contracts which have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking contracts to market. Replacement cost is a close approximation of the credit risk for these contracts as of the balance sheet date.

The credit risk weighted amounts and replacement costs stated above have taken the effects of netting arrangements into account.

Notional amounts of derivative financial instruments by original currency

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

Group and Bank	RMB	US Dollars	HK Dollars	Others	Total
As at 31 December 2007					
Notional amount of derivative financial instruments	110,038	98,854	22,673	10,275	241,840
As at 31 December 2006					
Notional amount of derivative financial instruments	38,662	79,145	11,958	8,832	138,597

(8) Dividends

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

	Year ended 31 December	
	2007	2006
Paid in the year	**5,311**	1,665

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 2007, the aggregate amount of distributable profit was RMB19,791 million, being the distributable profit determined in accordance with IFRS (2006: IFRS). On 19 March 2008, the directors proposed a cash dividend of RMB0.15 (2006: RMB0.10) per share, amounting to RMB7,349 million (2006: RMB4,580 million), which is subject to the approval by shareholders at the Annual General Meeting.

(9) Financial Guarantees and Credit Related Commitments, Other Commitments and Contingent Liabilities

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

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:

Group and Bank	As at 31 December	
	2007	2006
Guarantees	**155,573**	83,917
Letters of credit	**34,779**	28,375
Acceptances	**172,127**	166,094
Other commitments with an original maturity of		
– Under 1 year or on demand	**59,369**	24,694
– 1 year and over	**11,907**	10,953
	433,755	314,033

Capital expenditure commitments

Group and Bank	As at 31 December	
	2007	2006
Capital expenditure commitments for buildings	**203**	295

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:

Group and Bank	As at 31 December	
	2007	2006
Not later than 1 year	**769**	657
Later than 1 year and not later than 5 years	**1,756**	1,476
Later than 5 years	**636**	519
	3,161	2,652

Commitments on security underwriting and bond acceptance

Group and Bank	As at 31 December	
	2007	2006
Outstanding balance on security underwriting	**6,750**	10,200
Outstanding balance on bond acceptance [note]	**17,842**	24,523

Note:

The Bank is entrusted by the Ministry of Finance ("MOF") to underwrite certain Certificates of Treasury Bond. The investors of Certificates of Treasury Bond have a right 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.

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.

Legal proceedings

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

Group and Bank	As at 31 December	
	2007	2006
Outstanding claims	**1,785**	2,058
Provision for losses	**875**	995

(10) Segment Information

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

(i) Northern China – Including the following provinces: Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia;

(ii) North Eastern China – Including the following provinces: Liaoning, Jilin, Heilongjiang;

(iii) Eastern China – Including the following provinces: Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;

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

(v) Western China – Including the following provinces: Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shannxi, Gansu, Qinghai, Ningxia and Xinjiang;

(vi) Head office;

(vii) Overseas – Including overseas subsidiaries and the following branches: Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt and Macau.

	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Head Office	Overseas	Eliminations & Consolidated	Group Total
As at 31 December 2007									
Assets									
Cash and balances with central banks	11,614	3,478	21,071	8,746	4,278	211,497	749	–	261,433
Due from other banks and financial institutions	19,245	1,044	41,186	5,470	2,383	65,685	25,365	(4,268)	156,110
Financial assets held for trading	128	7	48	23	15	16,202	3,022	–	19,445
Loans and advances to customers	206,935	61,519	433,546	219,086	91,433	9,258	61,555	2,392	1,085,724
Investment securities									
– loans and receivables	6,488	3,632	13,619	10,801	2,905	30,151	–	–	67,596
– available-for-sale	17,728	183	107	3,237	24	102,640	23,654	–	147,573
– held-to-maturity	10,975	13,710	30,066	23,071	8,334	242,478	2,293	–	330,927
Other assets	32,535	8,304	38,855	26,069	8,734	11,341	13,841	(98,043)	41,636
Segment assets	305,648	91,877	578,498	296,503	118,106	689,252	130,479	(99,919)	2,110,444
Liabilities									
Due to other banks and financial institutions	(96,262)	(5,408)	(144,743)	(49,396)	(9,259)	(5,155)	(22,333)	–	(332,556)
Financial liabilities held for trading	(11)	(2)	(10)	(8)	(6)	(3,002)	(6,989)	–	(10,028)
Due to customers	(273,263)	(133,421)	(609,925)	(326,908)	(151,361)	(681)	(71,543)	(40)	(1,567,142)
Other liabilities	(3,970)	(1,422)	(93,709)	(4,769)	(1,982)	(35,892)	(25,612)	99,959	(67,397)
Segment liabilities	(373,506)	(140,253)	(848,387)	(381,081)	(162,608)	(44,730)	(126,477)	99,919	(1,977,123)
Net on balance sheet position	(67,858)	(48,376)	(269,889)	(84,578)	(44,502)	644,522	4,002	–	133,321
Off-balance exposures									
Financial guarantees, acceptance and letter of credit	97,774	10,222	163,335	59,544	19,382	1,001	11,221	–	362,479
Other credit related commitments	6,549	3,726	19,162	10,715	4,930	–	26,194	–	71,276

	Northern China	North–eastern China	Eastern China	Central & Southern China	Western China	Head Office	Overseas	Eliminations & Consolidated	Group Total
Acquisition cost of property and equipment ("PPE") and intangible assets	2,449	470	1,953	891	285	1,176	192	–	7,416
For the year ended 31 December 2007									
Interest income	15,595	5,608	33,576	17,223	7,012	17,464	7,329	(13,488)	90,319
Interest expense	(7,159)	(2,478)	(13,135)	(6,482)	(2,530)	(12,639)	(5,203)	13,451	(36,175)
Net interest income	8,436	3,130	20,441	10,741	4,482	4,825	2,126	(37)	54,144
Fee and commission income	623	275	2,063	788	307	3,144	1,045	–	8,245
Fee and commission expense	(166)	(51)	(410)	(127)	(56)	(67)	(273)	–	(1,150)
Net fee and commission income	457	224	1,653	661	251	3,077	772	–	7,095
Dividend income	–	6	61	–	–	5	5	–	77
Gains less losses arising from trading activities	385	98	645	253	65	(1,208)	(189)	–	49
Gains less losses arising from investment securities	85	–	232	54	1	(2)	287	–	657
Other operating income	29	15	236	384	27	80	(27)	23	767
Reversal/(Impairment losses) on loans and advances	(1,320)	91	(3,336)	(1,413)	(284)	(75)	(43)	–	(6,380)
Other operating expenses	(3,249)	(2,379)	(8,131)	(4,395)	(2,284)	(3,245)	(1,612)	–	(25,295)
Operating profit/(loss) before tax	4,823	1,185	11,801	6,285	2,258	3,457	1,319	(14)	31,114
Income tax	(1,873)	(356)	(4,657)	(1,972)	(882)	(613)	(359)	–	(10,712)
Net profit/(loss) for the year	2,950	829	7,144	4,313	1,376	2,844	960	(14)	20,402
Depreciation and amortization of property and equipment and intangible assets	(297)	(280)	(865)	(430)	(254)	(640)	(132)	–	(2,898)

	Northern China	North–eastern China	Eastern China	Central & Southern China	Western China	Head Office	Overseas	Eliminations & Consolidated	Group Total
As at 31 December 2006									
Assets									
Cash and balances with central banks	51,808	3,910	44,740	11,046	6,007	135,413	1,017	–	253,941
Due from other banks and financial institutions	21,239	497	25,242	5,508	472	46,795	22,971	(4,101)	118,623
Financial assets held for trading	–	–	1	–	–	8,598	4,396	–	12,995
Loans and advances to customers	162,029	55,830	364,547	179,744	79,490	12,400	53,667	2,600	910,307
Investment securities									
– loans and receivables	2,564	1,514	5,214	3,384	1,800	33,574	–	–	48,050
– available-for-sale	31,462	17,042	38,566	27,449	10,221	190,415	24,668	–	339,823
– held-to-maturity	–	–	–	–	–	–	–	–	–
Other assets	11,229	8,241	27,408	13,129	7,227	1,747	7,646	(40,883)	35,744
Segment assets	280,331	87,034	505,718	240,260	105,217	428,942	114,365	(42,384)	1,719,483
Liabilities									
Due to other banks and financial institutions	(101,932)	(3,809)	(86,672)	(18,522)	(7,008)	(12,489)	(5,675)	–	(236,107)
Financial liabilities held for trading	–	–	–	–	–	(419)	(8,305)	–	(8,724)
Due to customers	(226,365)	(127,384)	(510,225)	(285,552)	(133,126)	(272)	(69,647)	(319)	(1,352,890)
Other liabilities	(3,408)	(1,103)	(23,821)	(3,520)	(1,521)	(13,225)	(27,372)	42,703	(31,267)
Segment liabilities	(331,705)	(132,296)	(620,718)	(307,594)	(141,655)	(26,405)	(110,999)	42,384	(1,628,988)
Net on balance sheet position	(51,374)	(45,262)	(115,000)	(67,334)	(36,438)	402,537	3,366	–	90,495
Off-balance exposures									
Financial guarantees, acceptance and letter of credit	60,991	9,319	132,849	44,611	18,535	1,036	11,045	–	278,386
Other credit related commitments	2,431	1,548	8,409	4,609	2,187	–	16,463	–	35,647
Acquisition cost of property and equipment ("PPE") and intangible assets	491	283	992	647	325	978	92	2	3,810
For the year ended 31 December 2006									
Interest income	10,545	4,574	23,595	11,870	5,307	12,385	5,602	(9,335)	64,543
Interest expense	(4,620)	(1,829)	(8,372)	(4,209)	(1,707)	(9,441)	(3,897)	9,335	(24,740)
Net interest income	5,925	2,745	15,223	7,661	3,600	2,944	1,705	–	39,803
Fee and commission income	387	233	1,098	578	261	375	662	–	3,594
Fee and commission expense	(79)	(39)	(125)	(98)	(45)	(44)	(173)	–	(603)
Net fee and commission income	308	194	973	480	216	331	489	–	2,991
Dividend income	2	–	73	9	–	2	37	–	123
Gains less losses arising from trading activities	276	63	424	158	31	(802)	(207)	–	(57)
Gains less losses arising from investment securities	41	–	1	–	–	5	11	–	58
Other operating income	132	37	311	136	43	125	136	–	920
Reversal/(Impairment losses) on loans and advances	(963)	(1,167)	(2,490)	(489)	(431)	(108)	110	–	(5,538)
Other operating expenses	(2,485)	(2,372)	(6,493)	(4,128)	(1,844)	(2,480)	(1,093)	–	(20,895)
Operating profit/(loss) before tax	3,236	(500)	8,022	3,827	1,615	17	1,188	–	17,405
Income tax	(1,348)	(270)	(3,213)	(1,466)	(604)	2,156	(391)	–	(5,136)
Net profit/(loss) for the year	1,888	(770)	4,809	2,361	1,011	2,173	797	–	12,269
Depreciation and amortization of property and equipment and intangible assets	(256)	(287)	(801)	(422)	(261)	(501)	(112)	–	(2,640)

7. PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT

This results announcement is extracted from the 2007 annual report prepared in accordance with IFRS. The full text of such report is available for shareholders on both the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the website of the Bank at www.bankcomm.com. The full text of the 2007 annual report prepared in accordance with the PRC GAAP will also be available on the website of the Shanghai Stock Exchange at www.sse.com.cn and the website of the Bank at www.bankcomm.com. Investors who wish to understand the Annual Results in detail should also read the full annual report. The Bank's annual report prepared in accordance with IFRS is expected to be dispatched to its H Share holders at the beginning of April 2008.

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

Shenzhen, PRC, 19 March 2008

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

* *Non-executive directors*
\# *Independent non-executive directors*