

Management Discussion and Analysis

Economic, Financial and Regulatory Environments

China strengthened and improved its macroeconomic measures in 2006, and its economy continued to maintain steady and rapid growth. In 2006, China's GDP reached RMB20.9 trillion, an increase of 10.7%. The foreign exchange reserve increased by USD247.5 billion to USD1,066.3 billion. The balance of deposits of all financial institutions reached RMB34.8 trillion, an increase of 16.0%. All the loans outstanding reached RMB23.9 trillion, an increase of 14.7%.

The PBOC continued to implement prudent monetary policy and tightened banking liquidity by taking various measures, including intensifying open market operations and raising reserve-deposit ratio three times for financial institutions. By raising deposit and loan rates of financial institutions twice, it successfully allowed investment and monetary credit to grow reasonably. The reform of the RMB exchange rate mechanism was further deepened. At the end of 2006, the exchange rate of RMB against the US dollar (middle rate) appreciated by 3.35%, and the flexibility of the RMB exchange rate increased.

Financial market operated smoothly: the liquidity of money market was adequate, and market yield curve showed a streamlined trend. China has basically completed the reform of non-tradable shares, and resumed the initial public offering of equity securities. The stock index soared remarkably, with a sharp increase in market transaction volume.

Financial Statement Analysis and Prospects

Income Statement Analysis

In 2006, profit after tax reached RMB49,880 million, representing an increase of RMB11,861 million or 31.2% over the previous year. It was mainly due to a RMB10,018 million or 5.8% increase in operating income, of which net interest income increased by 6.2% and non-interest income rose by 2.8%. Income tax expense decreased by 11.3%. Preferential tax related to restructuring and listing reduced ICBC's effective tax rate.

CHANGES OF KEY INCOME STATEMENT ITEMS

in RMB millions, except percentages

Item	2006	2005	Increase/ decrease	Growth rate (%)
Net interest income	163,118	153,603	9,515	6.2
Non-interest income	18,520	18,017	503	2.8
Operating income	181,638	171,620	10,018	5.8
Less: operating expenses	77,397	81,585	(4,188)	-5.1
Less: provisions for impairment losses	32,189	27,014	5,175	19.2
Operating profit	72,052	63,021	9,031	14.3
Share of profits and losses of associates	13	5	8	160.0
Profit before tax	72,065	63,026	9,039	14.3
Less: income tax expense	22,185	25,007	(2,822)	-11.3
Profit after tax	49,880	38,019	11,861	31.2
Attributable to: equity holders of the Bank	49,263	37,555	11,708	31.2
Minority interests	617	464	153	33.0

Net Interest Income

Net interest income is the biggest component of ICBC's operating income. Net interest income reached RMB163,118 million in 2006, representing an increase of 6.2% and accounting for 89.8% of the operating income. Interest income was RMB272,941 million, of which the interest income from loans, investment securities and other interest income accounted for 68.7%, 24.5% and 6.8%, respectively.

The table below sets out the average balance of assets and liabilities, interest income and expenses and average yield and cost rates respectively⁽¹⁾.

in RMB millions, except percentages

Item	2006			2005		
	Average balance	Interest income/expense	Average yield/cost (%)	Average balance	Interest income/expense	Average yield/cost (%)
Assets						
Customers loans	3,464,384	187,623	5.42	3,429,852	175,285	5.11
Investment securities:	2,568,008	66,883	2.60	1,751,037	51,480	2.94
Investment securities not relating to restructuring	1,492,106	42,328	2.84	1,005,027	30,650	3.05
Investment securities relating to restructuring ⁽²⁾	1,075,902	24,555	2.28	746,010	20,830	2.79
Due from Central Bank	563,909	10,080	1.79	534,063	8,967	1.68
Placements with banks and other financial institutions ⁽³⁾	241,787	8,355	3.46	177,813	4,470	2.51
Total interest-generating assets	6,838,088	272,941	3.99	5,892,765	240,202	4.08
Provision for impairment loss	(94,023)			(357,696)		
Non-interest-generating assets	250,795			236,478		
Total assets	6,994,860			5,771,547		
Liabilities						
Deposits from customers ⁽⁴⁾	6,049,024	100,666	1.66	5,465,941	80,753	1.48
Due to banks and other financial institutions ⁽³⁾	391,574	7,898	2.02	278,670	5,356	1.92
Debt issued	37,978	1,259	3.32	14,360	490	3.41
Total interest-bearing liabilities	6,478,576	109,823	1.70	5,758,971	86,599	1.50
Non-interest-bearing liabilities	171,696			142,038		
Total liabilities	6,650,272			5,901,009		
Net interest income		163,118			153,603	
Net interest spread			2.29			2.58
Net interest margin			2.39			2.61

Note: (1) The average balance of interest-generating assets and interest-bearing liabilities is the average of the unaudited daily balances. The average balance of non-interest-generating assets, non-interest-bearing liabilities and provision for impairment loss is the average of the balance at beginning and end of the year.

(2) Investment securities relating to restructuring includes Huarong bonds, special government bonds, MOF receivables and special PBOC bills.

(3) The placements with banks and other financial institutions includes the amount of reverse repurchase agreements. The amount due to banks and other financial institutions includes the amount of repurchase agreements.

(4) Including certificates of deposits.

The table below indicates changes in interest income and expense brought by changes in volume and interest rates.

in RMB millions, except percentages

Item	Comparison between 2006 and 2005			Comparison between 2005 and 2004		
	Increase/(decrease) due to		Net increase/ (decrease)	Increase/(decrease) due to		Net increase/ (decrease)
	Volume	Rate		Volume	Rate	
Assets						
Customer loans	1,705	10,633	12,338	(7,408)	22,525	15,117
Investment securities	21,319	(5,916)	15,403	18,641	(1,358)	17,283
Investment securities not relating to restructuring	13,789	(2,111)	11,678	8,903	712	9,615
Investment securities relating to restructuring	7,530	(3,805)	3,725	9,738	(2,070)	7,668
Due from Central Bank	526	587	1,113	1,403	(722)	681
Placements with banks and other financial institutions	2,196	1,689	3,885	982	1,250	2,232
Changes in interest income	25,746	6,993	32,739	13,618	21,695	35,313
Liabilities						
Deposits from customers	10,074	9,839	19,913	6,983	7,949	14,932
Due to banks and other financial institutions	2,263	279	2,542	166	890	1,056
Debt issued	782	(13)	769	457	(7)	450
Changes in interest expense	13,119	10,105	23,224	7,606	8,832	16,438
Changes in net interest income	12,627	(3,112)	9,515	6,012	12,863	18,875

Note: Changes in volume are measured by changes in average balances, while changes in rates are measured by changes in average rates. Changes due to the combination of volume and rate have been allocated to changes in volume.

• Interest Income

Interest income was RMB272,941 million, representing an increase of 13.6%; interest income from investment securities and the placements with banks and other financial institutions increased rapidly by 34.5% in aggregate, contributing to 27.6% of total interest income, as compared to 23.3% in the previous year.

• Interest Income from Customer Loans

Interest income from customer loans constituted the biggest component of the Bank's interest income, reaching RMB187,623 million in 2006, representing an increase of RMB12,338 million or 7%. The main reason for the growth was that PBOC raised the benchmark interest rate twice in 2006, resulting in the average yield of customer loans rising from 5.11% to 5.42%. The average balance was close to that of the previous year, mainly due to the influence of restructuring-related disposal on the average balance of customer loans in 2005.

ANALYSIS OF AVERAGE LOAN YIELD BY BUSINESS LINES

in RMB millions, except percentages

Item	2006			2005		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	2,399,392	139,312	5.81	2,505,521	133,199	5.32
Discounted bills	421,912	11,135	2.64	339,123	9,044	2.67
Personal loans	534,569	31,169	5.83	498,851	29,060	5.83
Overseas operations	108,511	6,007	5.54	86,357	3,982	4.61
Total customer loans	3,464,384	187,623	5.42	3,429,852	175,285	5.11

74.3% of the interest income of customer loans was the interest income from corporate loans. In 2006, interest income from corporate loans rose by 4.6% to RMB139,312 million. It was mainly because the average yield increased from 5.32% to 5.81%, while part of the increase was offset by the reduction of the average balance. The growth of average yield of corporate loans was mainly due to: (1) PBOC raised the benchmark loan rate twice in April and August 2006; (2) loans to small-sized enterprises increased, and interest rate of such loans was generally higher than that of other corporate customer loans.

Interest income from discounted bills rose by 23.1% to RMB11,135 million, mainly due to an increase in the average balance.

Interest income from personal loans increased by 7.3% to RMB31,169 million, mainly due to an increase in the average balance, especially the rapid growth of personal housing loans and personal business loans. The average yield of personal loans was similar to that of the previous year, because the competition in the personal housing loan market was intensified despite the rise of benchmark loan rate by PBOC, and the interest rate of most of the Bank's personal housing loans was set at 0.85 times of the PBOC benchmark loan rate. Moreover, the rise of the interest rate of existing loans became effective on 1 January 2007, and therefore, it did not have any effect on the yield in 2006.

Interest income from overseas operations increased by 50.9% to RMB6,007 million, and mainly came from ICBC (Asia). The growth was due to an increase in the average yield resulted from the increase of loan rate in Hong Kong.

• Interest Income from Investment Securities

Interest income from investment securities constituted the second largest component of the Bank's interest income, accounting for 24.5% of total interest income, representing an increase of 3.1 percentage points. The income from investment securities principally included the interest income from available-for-sale debt securities, held-to-maturity debt securities and investment securities relating to financial restructuring.

Interest income from investment securities rose by RMB15,403 million or 29.9% to RMB66,883 million in 2006, of which, interest income from investment securities not relating to restructuring increased by RMB11,678 million, mainly because the Bank increased investment in Central Bank bills and policy bank bonds, thus increasing the average balance of these investment securities. The average yield decreased, mainly because the proportion of lower-yield Central Bank bills held by the Bank increased; secondly, some government bonds with relatively high interest rates became due in the year, pulling down the average yield. Interest income from investment securities relating to restructuring increased by RMB3,725 million or 17.9%. It was mainly because the Bank obtained the investment securities relating to restructuring from MOF and special Central Bank bills in May and June 2005, increasing the average balance of restructured investment securities. The decrease of average yield was mainly due to the revision on relevant terms of special treasury bonds of RMB85 billion.

• Interest Income from Amounts Due from Central Bank

The interest-earning balances with the central bank principally included the mandatory reserve and excess reserve. ICBC earned an interest income of RMB10,080 million from amount due from Central Bank in 2006, representing an increase of 12.4%. It was mainly because both ICBC's customer deposits and the mandatory reserve ratio stipulated by PBOC increased, thereby the average balance of due from the Central Bank increased. Secondly, ICBC improved cash management, and reduced the proportion of excess reserve in the dues from Central Bank, thus increasing the average yield.

• Interest Income from Amounts Due from and Placements with Banks and Other Financial Institutions

Interest income from the amounts due from and placements with banks and other financial institutions reached RMB8,355 million in 2006, an increase of 86.9%. It was principally attributed to the growth of the average yield and, to the lesser extent, attributed to the growth of average balance. The main reason for the growth of average yield was that interest rate in the RMB inter-bank monetary market rebounded slightly with the increase of interest rate of the Central Bank bills. The growth was also attributable to the fact that a part of foreign currency fund raised through H-share offering was invested in the inter-bank money market, and lending in the market was based on the LIBOR, which was increased in 2006 as compared to 2005.

• Interest Expense

Interest expense reached RMB109,823 million, representing an increase of 26.8%. It was principally due to an increase in the average balance of interest-bearing liabilities, and, to a lesser extent, an upward adjustment in the benchmark deposit rate by PBOC and a rebound of interest rate in the inter-bank money market, causing the increase in average cost of interest-bearing liabilities from 1.50% in 2005 to 1.70% in 2006.

• Interest Expense on Customer Deposits

Customer deposits have been a major source of the Bank's funding. In 2006, interest expense on customer deposits reached RMB100,666 million, representing an increase of RMB19,913 million or 24.7%, accounting for 91.7% of total interest expense. The growth was mainly due to an increase in the average balance of customer deposits and an increase in the average cost from 1.48% in 2005 to 1.66% in 2006.

ANALYSIS OF AVERAGE DEPOSIT COST BY PRODUCTS

in RMB millions, except percentages

Item	2006			2005		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Corporate deposits						
Time deposits	786,514	19,522	2.48	639,564	13,542	2.12
Demand deposits ⁽¹⁾	1,927,699	16,385	0.85	1,780,003	14,988	0.84
Subtotal	2,714,213	35,907	1.32	2,419,567	28,530	1.18
Personal deposits						
Time deposits	2,205,072	53,497	2.43	2,066,699	43,228	2.09
Demand deposits	1,035,589	7,405	0.72	919,829	6,666	0.72
Subtotal	3,240,661	60,902	1.88	2,986,528	49,894	1.67
Overseas operations⁽²⁾	94,150	3,857	4.10	59,846	2,329	3.89
Total customer deposits	6,049,024	100,666	1.66	5,465,941	80,753	1.48

Notes: (1) Include outward remittance and remittance payables.

(2) Include certificates of deposits.

• Interest Expense on Amounts Due to and Placements from Banks and Other Financial Institutions

Interest expense on amounts due to and placements from banks and other financial institutions grew by 47.5% to RMB7,898 million. The growth was mainly attributed to the resumption of equity securities offering in domestic stock market in 2006 and a surge in RMB deposits from securities companies with the Bank, which led to a significant increase in the average balance of such deposits.

• Interest Expense on Debt Issued

Interest expense on debt issued was RMB1,259 million, an increase of 156.9%. The growth was mainly due to the issue of subordinated bonds of RMB35 billion by the Bank in the second half of 2005, increasing the average balance of the bonds.

• Non-interest Income

Non-interest income reached RMB18,520 million, an increase of 2.8%, accounting for 10.2% of the operating income, representing a decrease of 0.3 percentage points over the previous year.

COMPOSITION OF NON-INTEREST INCOME

in RMB millions, except percentages

Item	2006	2005	Increase/ decrease	Growth rate (%)
Fee and commission income	18,529	12,376	6,153	49.7
Less: fee and commission expense	2,185	1,830	355	19.4
Net fee and commission income	16,344	10,546	5,798	55.0
Other operating income	2,176	7,471	(5,295)	-70.9
Total	18,520	18,017	503	2.8

In 2006, net fee and commission income reached RMB16,344 million, representing an increase of 55.0%, and accounting for 88.3% of non-interest income. The growth indicated the achievement that ICBC acquired by taking the expansion of intermediary business as an important part of its business strategy. RMB settlement and clearing, wealth management, bank card and investment banking were the main sources for ICBC's fee and commission income.

COMPOSITION OF NET FEE AND COMMISSION INCOME

in RMB millions, except percentages

Item	2006	2005	Increase/ decrease	Growth rate (%)
RMB settlement and clearing	4,656	2,824	1,832	64.9
Wealth management	3,280	1,929	1,351	70.0
Bank card	3,228	2,346	882	37.6
Investment banking	3,099	2,018	1,081	53.6
Agency business	1,254	1,081	173	16.0
Foreign exchange intermediary business	1,006	879	127	14.4
E-banking services	693	421	272	64.6
Guarantees and commitments	433	261	172	65.9
Custody	341	263	78	29.7
Others	539	354	185	52.3
Gross fee and commission income	18,529	12,376	6,153	49.7
Less: fee and commission expense	2,185	1,830	355	19.4
Net fee and commission income	16,344	10,546	5,798	55.0

RMB settlement and clearing income reached RMB4,656 million, representing an increase of RMB1,832 million or 64.9%. The growth was mainly due to the introduction of service fees on personal deposit accounts with low balances starting in the second quarter of 2006, with service fees of RMB1,107 million in the year.

Wealth management income increased by RMB1,351 million or 70.0% to RMB3,280 million. The growth was principally because ICBC made great efforts to develop wealth management business and achieved rapid growth in sales volume of such products. Due to the good performance of the PRC's securities market, the types and duration of open-end funds both increased sharply. The development of bancassurance linked the distribution channels of banks and those of insurance companies, increasing the transaction volume of life insurance.

Income from e-banking services increased by RMB272 million or 64.6% to RMB693 million, mainly due to the growth of e-banking settlement and agency business transactions. Bank card business income increased by 37.6% to RMB3,228 million; investment banking income rose by 53.6% to RMB3,099 million.

OTHER OPERATING INCOME, NET

in RMB millions, except percentages

Item	2006	2005	Increase/ decrease	Growth rate (%)
Gain/(loss) from foreign exchange and exchange products, net	(1,329)	2,255	(3,584)	-158.9
Gain from other dealing activities, net	676	1,314	(638)	-48.6
Gain on disposal of property, equipment and other assets, net	328	626	(298)	-47.6
Sundry bank charges/income ⁽¹⁾	917	1,309	(392)	-29.9
Others ⁽²⁾	1,584	1,967	(383)	-19.5
Total	2,176	7,471	(5,295)	-70.9

Notes: (1) Consists primarily of income arising from dormant deposits, settlement of other payables and recoveries of litigation expenses.

(2) Consists of dividend income from unlisted investments and recoveries of other assets written-off in prior years and others.

Other net operating income decreased by RMB5,295 million or 70.9% to RMB2,176 million. It was mainly due to RMB appreciation, which resulted in loss of foreign currency translation as well as decline in net gain from foreign exchange and exchange products. In addition, changes of fair value of currency option purchased from Huijin decreased in 2006.

In 2006, the return of foreign currency fund operation of the Bank was higher than that of RMB fund operation, while such excess of gain on investment offset the currency translation loss.

Operating Expenses

OPERATING EXPENSES

in RMB millions, except percentages

Item	2006	2005	Increase/ decrease	Growth rate (%)
Staff expenses	34,760	27,990	6,770	24.2
Supplementary retirement benefits	389	4,770	(4,381)	-91.8
Property and equipment expenses	14,494	14,409	85	0.6
Other administrative expenses	11,271	10,484	787	7.5
Business tax and surcharges	11,419	9,419	2,000	21.2
Expenses in relation to special government bonds	0	5,610	(5,610)	-100.0
Others	5,064	8,903	(3,839)	-43.1
Total	77,397	81,585	(4,188)	-5.1
Cost-to-income ratio (%)⁽¹⁾	36.3	40.1		

Note: (1) Cost-to-income ratio equals to the operating expenses (excluding business tax and surcharges) divided by operating income. In calculation of cost-to-income ratio of 2005, the interest income from and expense on special government bonds for the 11-month period ended 30 November 2005 were deducted from the operating income and operating expenses respectively.

Operating expenses decreased by RMB4,188 million or 5.1% to RMB77,397 million, mainly due to a decline in the expenses in relation to special government bonds and supplementary retirement benefits.

Supplementary retirement benefits refer to the supplementary pension and medical benefits for domestic employees who retired before 30 June 2005. During the financial restructuring in 2005, ICBC had received approval from MOF to establish a specific fund for retirement benefits. ICBC's liabilities for the supplementary retirement benefits at 31 December 2005 were calculated by Towers Perrin, an independent actuary, using expected progressive benefit unit method. Actuarial gain or loss is recognised in the income statement in the period which it incurred. ICBC settled the supplementary retirement benefits by injecting assets in equal amount into the fund in 2006, and thereafter it would have no further obligation to pay for the benefits. Please refer to note 29 to the Financial Statements: Other Liabilities. Please refer to sub-paragraph (a)(ii) of note 20 to the Financial Statements: Investment Securities for information on special government bonds.

Other administrative expenses rose by a low level of 7.5% to RMB11,271 million, mainly because ICBC strengthened cost management and control, and further regulated administrative and business expenses by means of centralised procurement and accounting.

Provision for Impairment Losses

ICBC made provision for impairment losses of RMB32,189 million in 2006, representing an increase of RMB5,175 million or 19.2% when comparing to that of last year, of which, provision for loan loss reached RMB30,014 million, representing an increase of RMB3,425 million or 12.9% when comparing to that of last year. For details of changes in provision for loan losses, please refer to "Review of Balance Sheet Items — Provision for Loan Losses".

Income Tax Expense

Income tax expense decreased by RMB2,822 million or 11.3% from last year to RMB22,185 million. Effective tax rate was 30.78%, representing a decrease of 8.90 percentage points from the previous year.

Pursuant to the Circular of State Administration of Taxation on the Issues of Business Income Tax Relating to Asset Evaluation Appreciation in Restructuring of ICBC (C.SH. [2006] No. 81) issued by MOF, in 2006, ICBC was exempted from business income tax relating to the asset revaluation appreciation during restructuring. Meanwhile, it was allowed to deduct the depreciation or amortisation made according to the appraised value before business income tax. In accordance with the Notice of Ministry of Finance and State Administration of Taxation on Pre-tax Deduction of Taxable Salary of ICBC (C.SH. [2007] No. 44) issued by MOF and State Administration of Taxation ("SAT"), the Bank changed the calculation method on pre-tax deduction of taxable salary from standard deduction to approved deduction of taxable salary in 2006. The two preferential tax policies above reduced income tax expense of the Bank.

Segment Information

The Bank's principal business segments are corporate banking, personal banking and treasury operations. The Bank uses the Performance Value Management System (PVMS) to evaluate the performance of each business segment. The following table illustrates the operating income from each main business segment. Please see "Management Discussion and Analysis — Business Overview" for a description of the products and business in these segments.

SUMMARY BUSINESS SEGMENTS INFORMATION

in RMB millions, except percentages

Item	2006		2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate banking	92,458	50.9	87,482	51.0
Personal banking	62,257	34.3	53,681	31.3
Treasury operations	25,374	14.0	28,296	16.5
Others	1,549	0.8	2,161	1.2
Total operating income	181,638	100.0	171,620	100.0

The following table illustrates the operating income of each geographic segment. For details please see note 39 to Financial Statements: Segment Information.

SUMMARY GEOGRAPHICAL SEGMENT INFORMATION

in RMB millions, except percentages

Item	2006		2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	12,626	7.0	18,828	11.0
Yangtze River Delta	41,988	23.1	38,290	22.3
Pearl River Delta	24,823	13.7	22,560	13.1
Bohai Rim	37,013	20.4	34,381	20.0
Central China	24,011	13.2	21,023	12.3
Northeastern China	10,054	5.5	8,595	5.0
Western China	26,899	14.8	24,739	14.4
Overseas and others	4,224	2.3	3,204	1.9
Total operating income	181,638	100.0	171,620	100.0

Review of Balance Sheet Items

Asset Composition and Change

Total assets amounted to RMB7,508,751 million at the end of 2006, representing an increase of RMB1,052,620 million or 16.3% over the previous year. Among which, customer loans and advances (collectively referred to as “loans”) increased by RMB341,618 million or 10.4%; investment securities rose by RMB555,109 million or 24.1%. In terms of structure, net loans accounted for 47.1% of total assets, dropped by 2.6 percentage points, investment securities accounted for 38.1%, increased by 2.4 percentage points, and other assets accounted for 14.8%.

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Total customer loans and advances	3,631,171	—	3,289,553	—
Less: provisions for impairment of loans	(97,193)	—	(83,692)	—
Customer loans and advances, net	3,533,978	47.1	3,205,861	49.7
Investment securities, net	2,860,798	38.1	2,305,689	35.7
Of which: receivables	1,106,163	14.7	1,074,461	16.6
Cash and balances with the central bank	703,657	9.4	553,873	8.6
Due from and placements with banks and other financial institutions, net	206,506	2.7	132,162	2.0
Reverse repurchase agreements	39,218	0.5	89,235	1.4
Others	164,594	2.2	169,311	2.6
Total assets	7,508,751	100.0	6,456,131	100.0

Loans

Total loan balance grew steadily in 2006, reaching RMB3,631,171 million at the end of 2006 and representing an increase of RMB341,618 million or 10.4% over last year.

• Distribution of Loans by Product Type

As of the end of 2006, domestic corporate loans of the Bank were RMB2,530,732 million, accounting for 69.7%; personal loans were RMB576,109 million, accounting for 15.9%; discounted bills were RMB412,313 million, accounting for 11.3%; and overseas loans were RMB112,017 million, accounting for 3.1%.

DISTRIBUTION OF CUSTOMER LOANS BY BUSINESS LINE

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate loans	2,530,732	69.7	2,277,396	69.2
Discounted bills	412,313	11.3	392,717	11.9
Personal loans	576,109	15.9	515,042	15.7
Overseas operations	112,017	3.1	104,398	3.2
Total	3,631,171	100.0	3,289,553	100.0

Domestic corporate loans increased by RMB253,336 million or 11.1%, of which, long and medium-term corporate loans grew by RMB200,470 million or 15.0%. This is mainly due to the increase of long and medium-term project loans, property development loans and syndicated loans.

DISTRIBUTION OF CORPORATE LOANS BY PRODUCT TYPE

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Short-term corporate loans	991,775	39.2	938,909	41.2
Long and medium-term corporate loans	1,538,957	60.8	1,338,487	58.8
Of which: Medium- and long-term property development loans	220,172	8.7	174,267	7.7
Syndicated loans	97,282	3.8	72,283	3.2
Subtotal	2,530,732	100.0	2,277,396	100.0

Balance of discounted bills increased by RMB19,596 million or 5.0%. The growth slowed down mainly because ICBC adjusted the structure of loan products including discounted bills, so as to balance the credit exposure to the various loan products and attain the profit target.

The balance of personal loans rose by RMB61,067 million or 11.9%, which is mainly due to the growth of personal housing loans and personal business loans, of which, personal housing loans reached RMB410,227 million, an increase of 8.6%, while personal business loans stood at RMB82,306 million, an increase of 36.4%. These two types of loans above represented 89.2% of the newly granted personal loans. Bank card overdraft grew by RMB1,735 million or 50.6% to RMB5,166 million, mainly due to an increase in new credit cards.

DISTRIBUTION OF PERSONAL LOANS BY PRODUCT LINE

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Personal housing loans	410,227	71.2	377,704	73.3
Personal consumption loans	78,410	13.6	73,565	14.3
Personal business loans	82,306	14.3	60,342	11.7
Bank card overdrafts	5,166	0.9	3,431	0.7
Total	576,109	100.0	515,042	100.0

Note: In light of the supplementary requirements of the financial statistics system of the PBOC, ICBC has changed personal commercial housing loans previously classified in personal real estate mortgage loans to personal business loans, and changed personal house refurbishing loans and personal home improvement loans to personal consumption loans since the second half of 2006. Corresponding adjustment was made to the loan classification at the end of 2005.

• Distribution of Loans by Geographic Region

In 2006, the Bank continued to improve regional structure of credit assets, and achieved balanced and harmonious development in regions.

DISTRIBUTION OF LOANS BY GEOGRAPHIC REGION

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	259,289	7.1	263,117	8.0
Yangtze River Delta	907,125	25.0	791,990	24.1
Pearl River Delta	513,514	14.1	453,773	13.8
Bohai Rim	640,213	17.6	574,513	17.4
Central China	467,142	12.9	424,628	12.9
Northeastern China	198,427	5.5	193,000	5.9
Western China	533,444	14.7	484,134	14.7
Overseas operations	112,017	3.1	104,398	3.2
Total	3,631,171	100.0	3,289,553	100.0

• Domestic Corporate Loans by Industry

In 2006, ICBC's loans to transportation and logistics, power generation and supplies and real estate development industries grew fast, increasing by RMB157,677 million, RMB61,859 million and RMB36,040 million (or 42.9%, 22.0% and 18.6%) respectively over the previous year. Loans to retail, wholesale and catering industry decreased by RMB10,764 million. Loans to manufacturing industry increased by RMB10,213 million, mainly attributable to the increase in loans made to textile and apparels, metal processing and chemical sectors. In terms of the balance structure, at the end of 2006, the loans are mainly concentrated on industries of manufacturing, transportation and logistics, power generation and supplies, and retail, wholesale and catering. Loan balance for these four industries accounted for 71.0% of all domestic corporate loans of ICBC.

DISTRIBUTION OF BALANCE OF DOMESTIC CORPORATE LOANS BY INDUSTRY

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Manufacturing	672,589	26.6	662,376	29.1
Chemicals	112,827	4.5	106,103	4.7
Machinery	81,798	3.2	82,034	3.6
Iron and steel	70,339	2.8	68,558	3.0
Textiles and apparels	68,363	2.7	59,245	2.6
Metal processing	62,583	2.5	53,867	2.4
Petroleum processing	44,744	1.8	44,621	2.0
Automobile	39,202	1.5	43,276	1.9
Electronics	38,710	1.5	37,806	1.7
Cement	30,202	1.2	32,602	1.4
Others	123,821	4.9	134,264	5.8
Transportation and logistics	525,048	20.7	367,371	16.1
Power generation and supplies	343,038	13.6	281,179	12.3
Retailing, wholesale and catering	255,142	10.1	265,906	11.7
Property development	230,064	9.1	194,024	8.5
Education, hospitals and other non-profit organisations	107,403	4.2	103,070	4.5
Construction	49,957	2.0	89,666	4.0
Others	347,491	13.7	313,804	13.8
Total	2,530,732	100.0	2,277,396	100.0

- **Distribution of Loans by Collateral**

Unsecured loans reached RMB869,776 million in 2006, an increase of RMB195,692 million or 29.0%, indicating the growth of loans to customers with higher credit rating. Loans secured by mortgages amounted to RMB1,241,259 million, an increase of RMB117,915 million or 10.5%, constituting the largest component of all loans.

DISTRIBUTION OF LOANS BY COLLATERAL

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Loans secured by mortgages	1,241,259	34.2	1,123,344	34.1
Of which: personal housing loans	410,227	11.3	377,704	11.5
Pledged loans	710,391	19.6	726,379	22.1
Of which: discounted bills	412,313	11.3	392,717	11.9
Guaranteed loans	809,745	22.3	765,746	23.3
Unsecured loans	869,776	23.9	674,084	20.5
Total	3,631,171	100.0	3,289,553	100.0

- **Distribution of Loans by Currency**

At the end of 2006, RMB loans reached RMB3,395,106 million, accounting for 93.5% of total loan balance. Foreign currency loans were equivalent to RMB236,065 million, accounting for 6.5% of total. Of which, USD loans were equivalent to RMB128,920 million, HKD loans were equivalent to RMB88,215 million, and other foreign currency loans were equivalent to RMB18,930 million.

- **Distribution of Loans by Maturity**

At the end of 2006, the loans due for more than one year totaled RMB1,765,242 million, accounting for 48.6%; the loans due for less than one year amounted to RMB1,715,193 million, accounting for 47.2%, which were mainly composed of corporate working capital loans and discounted bills. Overdue loans reached RMB150,736 million, accounting for 4.2%.

DISTRIBUTION OF LOANS BY MATURITY

in RMB millions, except percentages

Remaining maturity	At 31 December 2006		At 31 December 2005	
	Balance	Percentage (%)	Balance	Percentage (%)
Overdue	150,736	4.2	167,789	5.1
Due less than 1 year	1,715,193	47.2	1,519,956	46.2
Due between 1 to 5 years	895,651	24.7	843,533	25.6
Due more than 5 years	869,591	23.9	758,275	23.1
Total	3,631,171	100.0	3,289,553	100.0

- **Restructured Loans**

At the end of 2006, restructured loans and advances amounted to RMB59,592 million, a decrease of RMB11,396 million. Of them, restructured loans and advances overdue for more than three months totaled RMB48,540 million, a decrease of RMB10,085 million.

• Loan Concentration

At the end of 2006, ICBC's loans to the largest single borrower accounted for 3.1% of its net capital base; the loans to top 10 customers accounted for 21.7% of its net capital base, both meeting the regulatory requirements.

MAJOR REGULATORY INDICATORS

	Regulatory Standards	At 31 December 2006	At 31 December 2005
Percentage of loans to top 1 single customer (%)	<=10.0%	3.1	5.2
Percentage of loans to top 10 customers (%)	<=50.0%	21.7	35.4

BORROWER CONCENTRATION

in RMB millions, except percentages

Borrower	Industry	Amount	Percentage of total loans (%)
Borrower A	Manufacturing	16,711	0.5
Borrower B	Mining	16,030	0.4
Borrower C	Transportation and logistics	15,988	0.4
Borrower D	Transportation and logistics	10,500	0.3
Borrower E	Water works, environment and administration of public facilities	10,487	0.3
Borrower F	Data transmission, computer services and software	10,400	0.3
Borrower G	Water works, environment and administration of public facilities	10,107	0.3
Borrower H	Transportation and logistics	9,592	0.3
Borrower I	Mining	7,809	0.2
Borrower J	Power generation and supplies	7,757	0.2
Total		115,381	3.2

• Loan Quality

At the end of 2006, in accordance with the five-category loan classification, the balance of pass loans of the Bank was RMB3,165,586 million, accounting for 87.18% of total loan balance, representing an increase of 1.03 percentage points. The special mention loans were RMB327,840 million, accounting for 9.03% of total loan balance, representing a reduction of 0.13 percentage points. The non-performing loans (NPLs) reached RMB137,745 million, with NPL ratio standing at 3.79%, representing a decrease of 0.9 percentage points.

DISTRIBUTION OF LOANS BY FIVE-CATEGORY CLASSIFICATION SYSTEM

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Pass	3,165,586	87.18	2,833,853	86.15
Special mention	327,840	9.03	301,283	9.16
NPLs	137,745	3.79	154,417	4.69
Substandard	66,756	1.84	93,049	2.83
Doubtful	62,036	1.71	56,704	1.72
Loss	8,953	0.24	4,664	0.14
Total	3,631,171	100.00	3,289,553	100.00

At the end of 2006, the balance of domestic corporate NPLs decreased by RMB15,160 million, with a decrease of 1.23 percentage points in NPL ratio. The balance of domestic personal NPLs decreased by RMB1,613 million, and NPL ratio decreased by 0.51 percentage points.

NPLs BY BUSINESS LINE

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	NPLs	NPL ratio (%)	NPLs	NPL ratio (%)
Corporate loans	127,115	5.02	142,275	6.25
Discounted bills	—	—	—	—
Personal loans	9,298	1.61	10,911	2.12
Overseas operations	1,332	1.19	1,231	1.18
Total	137,745	3.79	154,417	4.69

At the end of 2006, the outstanding balance of NPLs and NPL ratio in the manufacturing industry decreased by RMB13,145 million and 2.14 percentage points respectively; the outstanding balance of NPLs and NPL ratio in retail, wholesale and catering industry decreased by RMB3,961 million and 1.09 percentage points respectively.

DISTRIBUTION OF CORPORATE NPLS BY INDUSTRY

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	NPLs	NPL ratio (%)	NPLs	NPL ratio (%)
Manufacturing	68,334	10.16	81,479	12.30
Chemicals	12,969	11.49	14,004	13.20
Machinery	9,957	12.17	15,202	18.53
Iron and steel	3,084	4.38	2,985	4.35
Textile and apparels	6,611	9.67	8,730	14.74
Metal processing	4,280	6.84	4,485	8.33
Petroleum processing	836	1.87	691	1.55
Automobile	3,109	7.93	4,693	10.84
Electronics	3,238	8.36	2,772	7.33
Cement	5,281	17.49	7,319	22.45
Others	18,969	15.32	20,598	15.34
Transportation and logistics	6,687	1.27	3,864	1.05
Power generation and supplies	6,433	1.88	6,118	2.18
Retail, wholesale and catering	25,332	9.93	29,293	11.02
Property development	9,982	4.34	9,945	5.13
Education, hospitals and other non-profit organisations	3,199	2.98	3,511	3.41
Construction	1,508	3.02	1,784	1.99
Others	5,640	1.62	6,281	2.00
Total	127,115	5.02	142,275	6.25

Provisions for Loan Losses

At the end of 2006, the balance of provisions for loan losses reached RMB97,193 million, with NPL reserve ratio standing at 70.56%, up by 16.36 percentage points over the previous year end. The ratio of provisions over total loans was 2.68%, up by 0.14 percentage points.

CHANGES IN PROVISIONS FOR LOAN LOSSES

in RMB millions

Balance at beginning of the year	83,692
Provisions in the year	30,014
Accretion of interest on impaired loans	(1,890)
Transfer-out in the year	(3,479)
Write-off during the year	(11,144)
Balance at end of the year	97,193

Investment

At the end of 2006, the balance of net investment securities amounted to RMB2,860,798 million, an increase of RMB555,109 million or 24.1% over the end of the previous year. The increase was mainly due to the growth of net debt instrument investment.

INVESTMENT PORTFOLIO

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Debt instruments	1,749,158	61.1	1,225,924	53.2
Receivables	1,106,163	38.7	1,074,461	46.6
Equity instruments	5,477	0.2	5,304	0.2
Total	2,860,798	100.0	2,305,689	100.0

At the end of 2006, the balance of net debt instrument investment reached RMB1,749,158 million, an increase of RMB523,234 million or 42.7%, mainly due to the increase in the Central Bank bills and the balance of investment in policy bank bonds. The Central Bank bills increased by RMB255,759 million or 50.6%, and investment in policy bank bonds rose by RMB74,762 million or 24.4%.

CLASSIFICATION OF DEBT INSTRUMENTS

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Government bonds	348,445	19.9	309,867	25.3
Policy bank bonds	381,112	21.8	306,350	25.0
Central bank bills	761,548	43.5	505,789	41.2
Other bonds	258,053	14.8	103,918	8.5
Total	1,749,158	100.0	1,225,924	100.0

At the end of 2006, the balance of receivables reached RMB1,106,163 million, an increase of RMB31,702 million, accounting for 38.7% of total investment securities, down from 46.6% at the end of the previous year. Of the receivables, MOF receivables decreased by RMB19,622 million to RMB226,378 million. It was because MOF repaid receivables principal of RMB19,622 million.

Liabilities Composition and Change

At the end of 2006, the balance of total liabilities reached RMB7,037,750 million, an increase of RMB841,495 million or 13.6%, of which, customer deposits remained to be a major source of funding and increased by RMB614,557 million, accounting for 73.0% of the increase of total liabilities. The amount due to banks and other financial institutions increased by RMB167,408 million or 71.9%, mainly due to the issue of new shares at the end of the year. The amount due to banks increased sharply.

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Customers deposits	6,351,423	90.2	5,736,866	92.6
Due to and placements from banks and other financial institutions	400,318	5.7	232,910	3.8
Repurchase agreements	48,610	0.7	32,301	0.5
Certificates of deposits	6,458	0.1	5,704	0.1
Debt issued	37,947	0.5	38,076	0.6
Other Liabilities	192,994	2.8	150,398	2.4
Total liabilities	7,037,750	100.0	6,196,255	100

Customer Deposits

At the end of 2006, the balance of customer deposits reached RMB6,351,423 million, an increase of RMB614,557 million or 10.7%. In terms of customer structure, the proportion of corporate deposits increased by 1.4 percentage points, while that of personal deposits decreased by 2.0 percentage points. In terms of maturity structure, the proportions of time deposits and demand deposits remained stable.

Corporate deposits increased by RMB354,476 million or 14.3%, of which, corporate demand deposits increased by RMB196,591 million or 11.1%, and corporate time deposits rose by RMB157,885 million or 22.4%. The growth of corporate time deposits was attributed to the increase in time deposits of institutional customers.

Personal deposits increased by RMB208,052 million or 6.7%, of which, personal demand deposits increased by RMB95,413 million or 9.5%, and personal time deposits rose by RMB112,639 million or 5.4%. The slowdown in the growth of personal deposits was principally due to the diversion of personal deposits by the development of personal wealth management business of the Bank and the effect of active capital market on the diversion of personal deposits.

DISTRIBUTION OF CUSTOMER DEPOSITS BY TYPE OF DEPOSIT AND BUSINESS LINE

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate deposits				
Time deposits	863,449	13.6	705,564	12.3
Demand deposits	1,974,736	31.1	1,778,145	31.0
Subtotal	2,838,185	44.7	2,483,709	43.3
Personal deposits				
Time deposits	2,215,439	34.8	2,102,800	36.6
Demand deposits	1,098,911	17.3	1,003,498	17.5
Subtotal	3,314,350	52.1	3,106,298	54.1
Overseas	105,209	1.7	68,920	1.2
Others⁽¹⁾	93,679	1.5	77,939	1.4
Total deposits	6,351,423	100.0	5,736,866	100.0

Note: (1) Others mainly included outward remittance and remittance payables.

BALANCE OF CUSTOMER DEPOSITS BY GEOGRAPHIC REGION

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	111,409	1.8	73,317	1.3
Yangtze River Delta	1,280,032	20.2	1,150,194	20.0
Pearl River Delta	839,725	13.2	785,937	13.7
Bohai Rim	1,686,142	26.5	1,524,750	26.6
Central China	878,446	13.8	796,921	13.9
Northeastern China	496,857	7.8	476,559	8.3
Western China	953,603	15.0	860,268	15.0
Overseas operations	105,209	1.7	68,920	1.2
Total	6,351,423	100.0	5,736,866	100.0

DISTRIBUTION OF DEPOSITS BY REMAINING MATURITY

in RMB millions, except percentages

Remaining Maturity	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Payable on demand	3,190,873	50.2	2,878,156	50.2
Less than 3 months	1,108,245	17.3	1,098,275	19.1
3–12 months	1,472,879	23.2	1,357,413	23.6
1–5 years	581,930	9.2	403,898	7.0
More than 5 years	3,954	0.1	4,828	0.1
Total deposits	6,357,881	100.0	5,742,570	100.0

Note: Customer deposits and certificates of deposits are included.

At the end of 2006, the balance of RMB deposits reached RMB6,095,210 million, representing an increase of RMB592,883 million, accounting for 95.9% of deposit balance (including certificates of deposits). Foreign-currency deposits were equivalent to RMB262,671 million, of which, HKD deposits were equivalent to RMB88,658 million, representing an increase of RMB19,208 million or 27.7%, and USD deposits were equivalent to RMB155,269 million, representing an increase of RMB9,672 million.

Shareholders' Equity

In 2006, ICBC expanded its issued share capital and reserves remarkably by introducing strategic investors and raising funds through A and H Shares offering.

in RMB millions, except percentages

Item	At 31 December 2006	At 31 December 2005
Issued share capital	334,019	248,000
Reserves	126,286	2,559
Retained profits	6,159	5,280
Equity attributable to equity holders of the Bank	466,464	255,839
Minority interests	4,537	4,037
Total equity	471,001	259,876

Capital Adequacy

CAPITAL ADEQUACY RATIO

in RMB millions, except percentages

Item	At 31 December 2006	At 31 December 2005
Core capital:		
Share capital	334,019	248,000
Reserves	125,523	5,444
Minority interests	4,537	4,037
Total core capital	464,079	257,481
Supplementary capital:		
General provisions for doubtful debts	33,645	21,846
Reserve for net change in the fair value of available-for-sale investments	1,005	—
Subordinated bonds	35,000	35,000
Total supplementary capital	69,650	56,846
Total capital base before deductions	533,729	314,327
Deductions:		
Goodwill	(1,195)	(1,307)
Unconsolidated equity investments	(1,729)	(1,176)
Net capital base	530,805	311,844
Core capital base after deductions	462,019	255,586
Risk-weighted assets and market risk capital adjustment	3,779,170	3,152,206
Core capital adequacy ratio	12.23%	8.11%
Capital adequacy ratio	14.05%	9.89%

Prospects

In 2007, following the end of the transition period of China's accession to the WTO, a fully-opened financial landscape has emerged. We now face a new business and competition environment. Judging from economic trends domestically and abroad, global industrial restructuring still forges ahead and economic globalisation will accelerate. The reform of the economic system in China will entrench with many new characteristics and uncertainties appearing during the economic transition period. The competition environment in the banking industry signals the arrival of a fully-opened era with continuous escalation of international competition. At the same time, major commercial banks in China have successively completed their restructuring and transition, with obvious enhancement in competitive capabilities. This has brought many business opportunities for ICBC but it has also increased the competitive pressure faced by ICBC.

ICBC will focus on the overriding objective of maximising shareholder value and sustainable growth, and will continue to establish and strengthen its position as a market leader through the following approaches and measures. First, ICBC will consolidate its market leading retail banking business by optimising the distribution of its outlets, developing personalised products and services targeting middle to high-end customers, promoting wealth management service, and establishing a customer-centric business environment for retail banking. Second, ICBC will achieve steady development of its credit business by maintaining an appropriate loan growth rate, introducing innovative marketing and service models, promoting new short-term financing services, driving the development of credit business to small enterprises and individuals, and strengthening credit risk management to ensure the quality of development of the credit business. Third, ICBC will accelerate the development of treasury and intermediary services, improve the overall deployment of non-credit assets, increase income generated from intermediary businesses, and upgrade the development of bank cards and electronic banking services. Fourth, ICBC will explore new ways of international development and comprehensive operations with concentrated efforts on investment banking by deepening its cooperation with insurance companies and increasing the speed at which its international business is upgraded and developed. Fifth, ICBC will strengthen technological innovation and IT strength and implement an integration project of management information system to enhance IT application. Sixth, ICBC will continue to improve corporate governance and overall risk management and establish itself as a bank with highly efficient and effective processes. Seventh, ICBC will attach importance to the development of human resources and corporate culture by driving a comprehensive human resources management reform covering the system of staff appointments, hierarchy of positions, performance evaluation and remuneration, increasing its efforts on education and training, and cultivating a culture commensurate with that of a modern financial institution.

Business Overview

Corporate Banking

In 2006, to further improve the competitiveness of corporate banking of the Bank, in accordance with the requirements of marketing by customer category and establish a bank with efficient procedures, the Bank adjusted the department establishment in the Head Office to strengthen the marketing capacity of the front office, and accelerated the streamlining of corporate banking organisations in branches to build layered marketing system. The Bank accelerated the implementation of a comprehensive marketing strategy for corporate banking. While consolidating its leading position in the deposit and loan market, the Bank took great efforts to develop emerging high-end corporate banking products and services such as investment banking, cash management, corporate wealth management, enterprise annuity and financial derivatives.

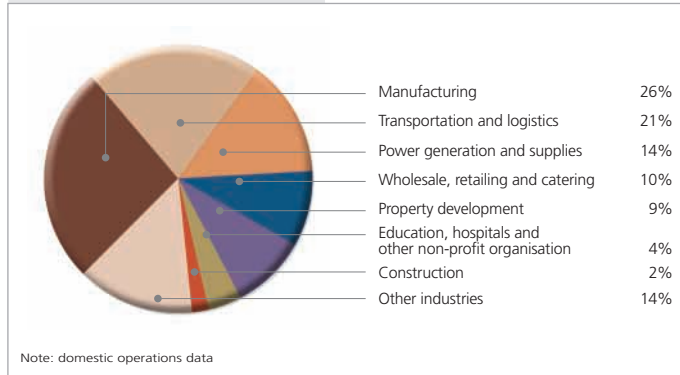
The Bank has a large corporate banking customer base in China. As of the end of 2006, the Bank had more than 2.41 million corporate banking customers.

Corporate Deposits and Loans

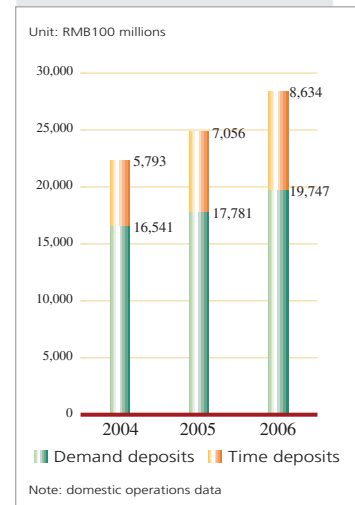
The Bank carried out a strategy of progressive and steady growth of corporate loans, continuously increased the credit investment in key basic industries and key infrastructure industry such as transportation and energy, steadily developed the real estate and urban construction credit market, reinforced the marketing to emerging industries such as medical care and cultural media and emerging customers such as multinational companies and small-sized enterprises, intensified the market development in key regions and accelerated the withdrawal from high risk industries and customers with low credit rating. While consolidating its position as the largest corporate credit bank in China, the Bank further optimised its industrial structure, regional structure, customer structure and product structure. The Bank launched a series of products such as domestic trade finance. As of the end of 2006, the balance of corporate loans in domestic corporations was RMB2,530,732 million, accounting for 69.7% of total deposits and an increase of RMB253,336 million from the end of the previous year. Of the loans, small enterprise loans and syndicated loans increased by RMB59.7 billion and RMB24,999 million respectively.

As of the end of 2006, deposits of domestic corporations were RMB2,838,185 million, an increase of 14.3% and accounting for 44.7% of deposit balances. The demand deposits of domestic corporations accounted for 64.2% of total demand deposits of domestic corporations of the Bank.

Balance of Corporate Loans



Growth of Corporate Deposits



Institutional Banking

The Bank consistently explored new models of cooperation with insurance companies to strengthen the cooperation in respect of insurance agency, assets custody, cash management and e-commerce, and entered into comprehensive cooperation agreements with 22 domestic and foreign insurance companies. It was the first to provide “on-line insurance” services. The Bank steadily promoted the innovation of bank-securities and bank-futures businesses and products in respect of financing, settlement, agency and custody services, and developed business cooperation with 129 securities companies and 162 futures companies. It strengthened cooperation levels with peer banks, and formally established corresponding bank relationships with 60 domestic banking institutions, and significantly expanded the scale of payment and settlement agency services and agency clearing services. The Bank strengthened its scope of cooperation with government authorities, and developed such businesses as “Bank-Finance Link”, “Bank-Customs Express Pass”, “On-Line Bank-Finance Link” and “Bank-Taxation Link” into leading brands in the market.

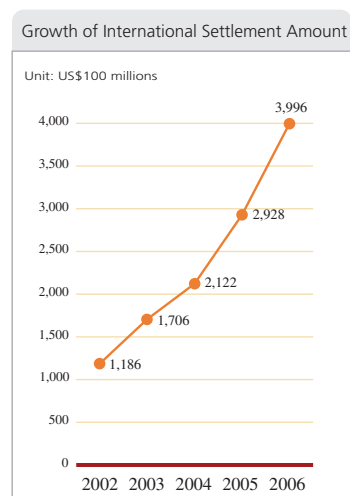
Corporate Intermediate Businesses

• Payment, Settlement and Cash Management

The Bank maintained its leading position in RMB clearing, settlement and cash management businesses. Cash management service includes cash collection, disbursement, account management and liquidity management. Group corporate customers operating in multiple regions may monitor and transfer funds between the group's different accounts in real time through the online banking platform, and realise real time centralised management of their internal liquidity. The Bank is also able to provide customised cash management service based on the demands of small and medium enterprises. At the end of 2006, the Bank had 31,408 cash management customers, an increase of 78%, of which 11 customers were among the 15 Chinese Mainland enterprises (excluding banks) listed on the "Top 500 enterprises" chosen by the Fortune in 2006. The Asia Currency called the Bank "Best RMB Cash Management Bank in China in 2006". At the end of 2006, RMB settlement amounted to RMB260 trillion, an increase of 40% as compared to the previous year.

• Foreign Exchange Intermediate Business

The Bank provided corporate banking customers with diversified foreign exchange services including letters of credit, foreign exchange remittance, foreign exchange collection, etc. In 2006, the Bank actively developed the customised innovation of international settlement and innovation of derivatives services, integrated international settlement products and trade finance products, and designed 10 application plans of product portfolio. The international settlement business realised total electronic operation and management solutions, and the Documents and Bills Center for International Settlement was established at the Head Office, which further increased the efficiency of service. In 2006, international settlement of the Bank reached USD399.6 billion, an increase of 36.5%, of which international settlement by domestic entities accounted for USD290.2 billion, an increase of 29%.



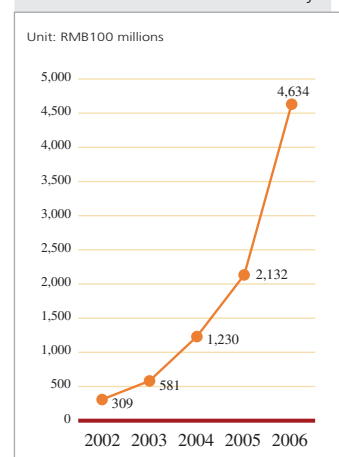
• Investment Banking

The Bank proactively explored the interactive development of investment banking and traditional banking, steadily developed fundamental businesses such as corporate wealth management advisory services and credit standing services, focused on the expansion of branded businesses exemplified by advisory services for restructuring and acquisitions, structured financing, underwriting of syndicated loan arrangements, indirect advisory of syndicate and corporate listing, and proactively developed emerging businesses such as short-term financing bonds and asset securitisation. In 2006, the Bank issued 23 terms of financing bonds for 19 enterprises as the lead underwriter, with a total value of RMB46,340 million. The management system of long-term financial advisory business was put into operation, which continuously improved the business management efficiency. The Bank acted as the financial advisor in the Baosteel acquisition of Bayi Steel & Iron project which was chosen as one of the "Top Ten 2006 Strategic M&A Transactions" by the Contemporary Manager, a domestic finance and economics magazine.

• Asset Custody Services

The Bank vigorously developed the asset custody business, and maintained its leading position in the domestic custody market. As of the end of 2006, total assets under custody amounted to RMB463.4 billion, an increase of 117.3%, of which RMB268.4 billion was securities investment funds, representing a market share of 32.13%; and assets of insurance companies and enterprise annuity amounted to RMB184.7 billion. ICBC operated assets of four qualified foreign institutional investors (QFIs), an increase of one QFI; it took the lead in putting forth the custodian operation solution for qualified domestic institutional investors (QDII), and successfully operated the first QDII products of funds companies, banks and insurance companies and became the largest QDII custodian bank in China. In 2006, the Bank defended the title of “Best Custodian Bank in China” granted by the Global Custodian, and was named “Best Custodian Bank in China” by The Asset, a Hong Kong magazine.

Growth of Assets Under Custody



• Precious Metal Business

The precious metal business of the Bank maintained steady development. Precious metal businesses include providing customers with physical bullion transactions, account bullion transactions and bullion derivatives and services. In 2006, the Bank newly launched bullion mortgage loan business and agency overnight bullion transaction business. The Bank is a member of the Shanghai Gold Exchange. As of the end of 2006, RMB63.2 billion of client funds were cleared with the gold exchange, representing a market share of 50.8%, ranking first among the Chinese commercial banks.

• Enterprise Annuity

The Bank provided its customers with comprehensive enterprise annuity services such as trust advisory, account management, custody and value-added services. In 2006, with the continuous development of the enterprise annuity market, the enterprise annuity business grew rapidly. As of the end of 2006, the Bank entered into agreements with 303 new annuity customers, and reported an increase of 1.21 million personal accounts under management and an increase of RMB4.3 billion annuity funds under custody.

Personal Banking

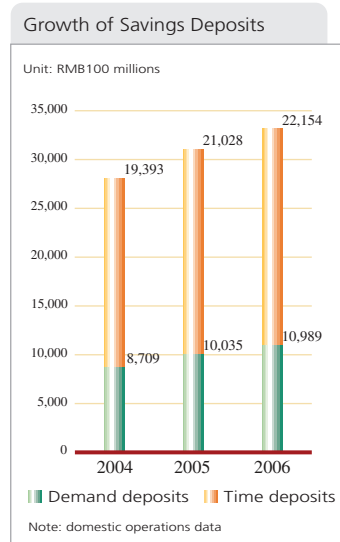
The Bank upheld the operation principle of “customer-focused, market-oriented and value-created”, and methodically reformed the operational management system of personal banking. The Bank restructured its business process and promoted the transition of mode of operation and method of growth. The Bank proactively optimised the customer structure, clarified the personal customer market position of “focusing on medium-end customers, competing for high-end customers and cultivating of potential customers”, brought the uniform customer view into effect, established layered customer service system and promoted the growth of medium- and high-end customers and potential customers. The Bank accelerated business structural adjustment, invested great efforts to develop personal wealth management and personal credit businesses, and conducted cross-selling to facilitate the harmonious development of various businesses. The Bank accelerated the transition and integration of service channels, intensified the building of wealth management centers, vigorously developed the e-banking business and set up an integrated multi-channel service system with equal focus on service outlets, on-line banking, phone banking, mobile banking and self-service banking businesses.

The Bank has the largest personal banking customer base in China. As of the end of 2006, it had more than 170 million personal banking clients. The Bank maintained its position of leadership within the domestic market in its principal businesses. According to PBOC data, the Bank was ranked first among Chinese commercial banks in terms of outstanding personal loans and deposits as of the end of 2006, respectively, accounting for 15.0% and 19.7% of the total market share.

Personal Financial Services

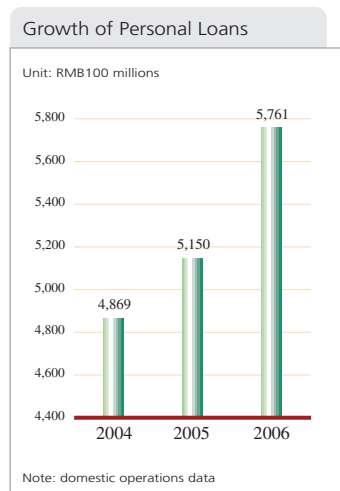
• Savings Deposits

The Bank harmoniously developed personal deposits and personal wealth management products, widely absorbed low-cost demand deposits, and proactively guided the customers to reasonably allocate medium- and long-term savings deposits and fixed-income wealth management products. As of the end of 2006, the balance of personal deposits was RMB3,314,350 million, an increase of RMB208,052 million or 6.7% from the end of the previous year. Personal deposits slowed down its rate of growth due to the diversion of personal deposits by the Bank's development of personal wealth management products and an active capital market. Influenced by factors such as the continuous appreciation of RMB, the willingness of customers to hold foreign currency assets decreased.



• Personal Loans

The Bank emphasised the development of personal loan business, primarily through personal housing loans, personal consumption loans and personal business loans, to improve the market competitiveness of personal credit business. The Bank comprehensively carried out the "standardised marketing of personal credit business project" to optimise and improve the mode of marketing and management of personal credits. The Bank focused on the innovation of personal credit products, and launched new personal credit facilities including direct-marketing personal housing loan, fixed interest personal housing loan, deposit-loan link and on-line banking personal pledged loan. The Bank launched 10 measures to improve personal credit service, including providing preferential unsecured loans for personal customers with good credit standing, broadening the purposes of mortgage loans and improving the process of second-hand housing loans. To satisfy the financing demands arising from the rapid development of private economy, the Bank actively and steadily developed personal business loans, primarily taking personal property as collaterals, the quality of asset is sound and has become the new point of growth of personal loan business.



As of the end of 2006, the balance of domestic personal loans amounted to RMB576,109 million, an increase of RMB61,067 million or 11.9%.

• Personal Intermediate Business

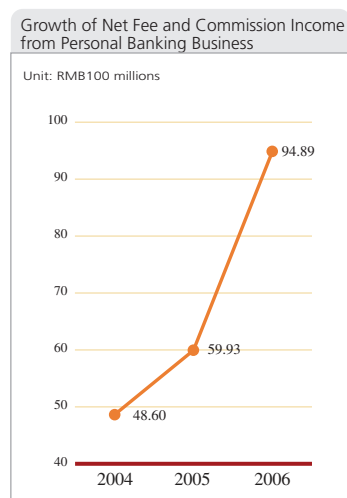
The Bank provides personal customers with personal wealth management, remittance and settlement, collection and disbursement, and bank card-related services. In 2006, driven by the personal wealth management business, the personal intermediate business of the Bank experienced rapid growth. The net service fee and commission income from personal intermediate business reached RMB9,489 million, an increase of 58.3%.

• Personal Wealth Management

The Bank has established an enriched line of wealth management products denominated in RMB and foreign currency to satisfy the customers' individualised demands on currency, term structure, yield and risks. These products and services include "Wendeli", a low-risk RMB investment product guaranteed by the investment income from high quality RMB bonds and including trust loans, bond investments and new-share subscription; "Zhulianbihe", an RMB structured investment product linked to foreign currency derivatives; "Litianli", an account wealth management product connecting demand deposits of customers with low-risk funds such as money market and short-term bonds; "Huicaitong", a foreign currency wealth management product linked to exchange rate, interest rate, commodity price index and credit index. In addition, the Bank provided a foreign exchange product, known as "Huishitong", and gold trading services, known as "Jinhangjia". The Bank was the first Chinese commercial bank that officially provided agency overseas wealth management services for domestic residents. In 2006, the Bank issued a total of RMB75.49 billion personal wealth management products in RMB and foreign currencies, an increase of 2.98 times from the previous year.

The Bank provides personal banking customers with various third-party financial products, which mainly includes the issuance and trading of government bonds and open-end funds and bancassurance. In 2006, the Bank sold a total of RMB320.7 billion personal wealth management products on an agency basis, an increase of 98.3%. The Bank was the largest distributor of bearer form treasury bonds in China in terms of distribution volume, with a market share of 31.2%; it distributed savings (electronic) treasury bonds on a pilot basis, with a market share of 42.18%. The Bank distributed a total of RMB197.3 billion open-end funds, an 2.8 times increase; and it took the lead in launching the "fixed investment of funds" business and the first foreign currency fund in China. The Bank upgraded the "bank-insurance link" system, initiated the centralised cooperation between banks and insurance companies in China, and further consolidated its competitiveness in the agency insurance market. In 2006, it reported a premium income of RMB45.9 billion from the bancassurance products sold, representing an increase of 46% from the previous year.

In 2006, the Bank strengthened the promotion of the "Elite Club Account" brand, and comprehensively upgraded the functions of Elite Club Account service, it launched the VIP wealth management center and a variety of financial products especially designed for such customers to enhance the value of the brand. As of the end of 2006, the Bank had 2.36 million Elite Club Account customers, an increase of 25.5%. Experienced customer managers of the Bank provided customised wealth management services for Elite Club Account customers. The Bank employs 2,078 certified financial planners (CFP), the most in the domestic banking industry.



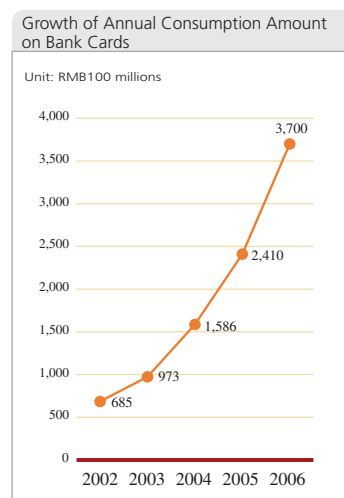
• Other Personal Intermediate Business

Remittance and settlement service: Taking advantage of its extensive networks and advanced e-banking platform, the Bank provides personal customers with account transfer and remittance services. The “Remittance Express” and “Inter-City Savings Link” are brands which are well recognised publicly. The Bank improved the functions of its remittance business, and added new functions such as ramble remittance and inter-city foreign currency remittance. In 2006, the personal settlement business reached RMB8.52 trillion, an increase of 19.3%.

Collection and disbursement services: The Bank provides its customers with various collection and disbursement services such as salary payment, utility bill payment, telecommunication bill payment and lottery agency service. The Bank encourages its customers to use the easily accessible e-banking network to carry out collection and disbursement, so as to relieve the pressure on the banking counters.

Bank Card Business

The quantity of bank cards issued and annual bank card transaction volume continued to grow rapidly. As of the end of 2006, 188.63 million bank cards have been issued, an increase of 29.9%; annual transaction volume amounted to RMB370 billion, an increase of 53.5%. The Bank continued to lead the market in terms of bank card transaction volume and bank card cross-bank transaction volume, with 10.47 million credit cards issued and an annual transaction volume of RMB105 billion. We are the first bank to break through the 10 million bank card issuance mark and the RMB100 billion credit card transaction volume mark, making it the largest credit card issuer in China. As of the end of 2006, bank card overdrafts amounted to RMB5,166 million, an increase of 50.6%; and the asset quality maintained a relatively high level in domestic market. The income from intermediate business of bank card reached RMB3,228 million for the whole year, an increase of 37.6%.



The Bank intensified efforts to innovate bank card products, and issued a series of new products in succession, including the 2006 World Cup theme card, Peony Student Card and Euro Credit Card. The Bank deepened its cooperation with American Express on credit card business, and launched the Peony PetroChina Express Card and Peony Express Commercial Card in cooperation with American Express. After issuing foreign brand credit cards such as Visa Card, Master Card and American Express Card, ICBC issued the first domestic brand credit card, Peony Unionpay Card, becoming a card issuer with one of the most complete line of credit card brands in China.

Item	2006	2005	Growth Rate (%)
Issued bank cards (unit: 10,000)	18,863	14,522	29.9
Annual transaction volume (unit: RMB100 million)	3,700	2,410	53.5
Average transaction volume per card (unit: RMB) ⁽¹⁾	2,217	1,660	33.6
Transaction clearing of external credit cards (unit: RMB100 million)	68	63	7.9
Designated merchants (unit: 10,000)	20	15	33.9

Note: (1) $\text{Average transaction volume per card} = \frac{\text{Annual transaction volume}}{(\text{Issued cards at the period-beginning} + \text{Issued cards at the-period end})/2}$

Treasury Operations

The treasury operations of the Bank mainly include money market activities, management of investment portfolio and agency treasury transactions.

Money Market Activities

The money market transactional activities of the Bank mainly include short-term borrowing from and lending to other domestic and overseas financial institutions, and repurchase and buy-in transactions. With respect to RMB, the volatility of funds on the money market was more obvious as compared to 2005 due to the influence of such factors as macroeconomic measures and new share subscription, and the market interest rate fluctuated at a relatively high level. The cumulative outflows of RMB funds of domestic operations of the Bank amounted to RMB4,325.6 billion in the whole year; and the cumulative inflows of RMB funds amounted to RMB454.2 billion. With respect to foreign currency, the transaction volume on the money market reached USD605 billion in 2006.

Management of Investment Portfolio

Investment securities portfolio primarily consists of debt securities. The Bank classifies the investment portfolio into debt securities at fair value through profit or loss, receivables, held-to-maturity securities and available-for-sale securities. The debt securities at fair value through profit or loss are held for the trading purpose and are managed through the trading account; while receivables, held-to-maturity securities and available-for-sale securities are managed through the banking account.

• **Business of Trading Account**

The Bank mainly conducts proprietary treasury operations at the Head Office. A total of RMB1.44 trillion business volume was realised in the RMB bond transaction accounts in 2006, a rapid 6.7 time increase. The Bank reinforced the market-maker business in the inter-bank market, adding commercial paper into its market-making bonds portfolio.

• **Business of Banking Account**

As of the end of 2006, the balance of investment in debt securities on RMB banking account was RMB2,617,183 million, an increase of RMB441,452 million. The medium- and short-term bonds continued holding the principal position, and the structure was generally stable. The Bank's RMB bond investment did not result in non-performing assets. As of the end of 2006, the balance of foreign currency bond investment amounted to USD27,793 million, an increase of USD14,619 million.

Agency Treasury Operation

The Bank provided its corporate and personal customers with a variety of treasury services. It provided spot foreign exchange trading services, forward foreign exchange trading services, and RMB and foreign currency swap services, and launched RMB interest rate swap service in 2006. It conducted 24-hour foreign exchange transaction, forward currency agreement, interest rate and currency swap and transactions of other financial derivatives on behalf of customers. In 2006, the volume of foreign exchange treasury transactions conducted by ICBC on behalf of customers amounted to USD195.4 billion, an increase of 36.5%, of which the volume of foreign exchange trading reached USD146.2 billion, representing a market share of 12% and second place ranking. The volume of RMB book-entry over-the-counter bond transactions was RMB2 billion, representing a market share of 47% and first place ranking.

Distribution Channels

Branch Network

As of the end of 2006, the Bank had 16,997 institutions in Mainland China, including the Head Office, 30 tier-1 branches, 5 branches directly controlled by the Head Office, 383 tier-2 branches, 29 banking offices of tier-1 branches, 3,068 tier-1 sub-branches, 13,412 front line business outlets and 69 other institutions. The front line business outlets included more than 3,000 wealth management centers. In addition, the Bank had 98 branches, subsidiaries, representative offices and outlets abroad.

On the principle of controlled development, the Bank continuously optimised the allocation of outlet resources, reasonably reduced the overall scale of the institution, and established an outlet distribution layout of focusing on urban branches and giving priority to branches in large and medium cities.

E-banking Business

Through the internet, telephone, mobile phone, ATMs and self-service banking centers of bank branches, the Bank provided diversified e-banking services to the corporate and personal customers. In 2006, the Bank expanded the e-banking customer base by expanding the outlets of e-banking demonstration projects, enriching the contents of e-banking products and websites, and developing a series of themed marketing activities. As of the end of 2006, the e-banking customers numbered 49.84 million, an increase of 42%. The e-banking transactions accounted for 30.1% of the total business of the Bank in terms of the number of transactions, an increase of 4.2 percentage points. The business volume of e-banking service reached RMB45.2 trillion, an increase of 50.6%¹. The income from e-banking business reached RMB693 million, an increase of 64.6%. Because of the outstanding performance of e-banking business in the Bank, Chairman Jiang Jianqing was elected “Top 30 Personage of Electronic Finance” in the world by Institutional Investor, an American magazine, the only person elected from Mainland China.

• Online Banking

ICBC provided corporate and personal online banking services through its website www.icbc.com.cn. In 2006, it strengthened the online banking wealth management platform, and launched various new products including Online Bullion, Litianli, Wendeli and Fixed Investment of Funds. With the launching of new products and services such as online shopping mall, online cross-border remittance, inter-city account management, online account reconciliation between bank and corporation and bulk payment system for enterprises, it further met the demands of personal and corporate customers. The online banking system was put into operation in three overseas branches in Seoul, Tokyo and Macau, initiating online banking business in oversea operations. The safety products including E-banking password card, security question validation and log-in with alternative user name have further improved the safety of the online banking system.

The Bank was granted the “Award for Network Application Innovation of Global Banks” in 2006 by the Banker, a British magazine; and was voted the “Best Corporate Online Bank of Investment Management in Asia” by Global Finance, an American magazine. The Bank’s personal online banking service also obtained the title of “Best Personal Online Bank in China” for the fourth successive time from the same magazine.

In 2006, personal and corporate online banking customers increased by 56.5% and 86.2% to 23.25 million and 600,000, respectively. The annual business volume of e-commerce online payment reached RMB19.5 billion, an increase of 67.5%.

¹ The Bank did not adjust internal fund positions through the online banking system since the operation of the fund centralised allocation system took place in 2006, and the statistics approach of e-banking transactions are adjusted accordingly.

• **Telephone Banking**

The Bank provided around-the-clock telephone banking service through the phone number “95588” in Mainland China and the phone number “21895588” in Hong Kong. In 2006, the telephone banking business launched new products such as telephone payment (BTOC), automatic payment and the payment reminder services. The telephone banking system was successfully linked to 7 branches such as the Tianjin branch. Currently, the integrated phone banking system has extended to 33 domestic operations, demonstrating the clear advantage of centralised and streamlined operation.

• **Self-service Banking Center and ATM**

The bank continuously consolidated its distribution network for self-service banking business to reduce cost and increase the efficiency of branch and sub-branch networks. As of the end of 2006, the Bank owned 2,704 self-service banking centers and 19,922 ATMs, an increase of 84% and 9%, respectively.

Overseas Business

The Bank expanded its business in most major financial centers around the world. ICBC has branches in Hong Kong, Macau, Singapore, Tokyo, Seoul, Busan, Frankfurt and Luxemburg; and controlling institutions in Hong Kong, London, Luxemburg and Almaty; and representative offices in New York, Moscow and Sydney. As of the end of 2006, ICBC had a total of 98 branches, controlling institutions, representative offices and outlets abroad, and established corresponding bank relationships with 1,266 foreign banks in 117 countries and regions. As of the end of 2006, total assets of the Bank’s overseas branches and controlling institutions amounted to USD26.72 billion, an increase of 15.58% from the previous year.

In its effort to develop business in Southeast Asia, the Bank entered into an acquisition agreement with the Indonesian shareholder of Bank Halim Indonesia on 30 December 2006. In accordance with the acquisition agreement, ICBC will purchase 90% of the shares of Bank Halim Indonesia, making it the Bank’s first acquisition of a transnational bank and also its first entry into the foreign market by acquisition. As of 31 December 2006, the purchase of Bank Halim Indonesia remained pending.

Operation of Controlled and Participated Companies

Controlled Companies

• Domestic Controlled Companies

ICBC Credit Suisse Asset Management Co., Ltd. (“ICBC Credit Suisse”)

ICBC Credit Suisse, a controlled subsidiary of ICBC, has registered capital of RMB200 million, with the Bank holding 55% of the shares. It mainly engages in asset management and fund placement. In 2006, it was awarded “Emerging Star 2006” in the 4th “Taurus Award of Chinese Fund” sponsored by China Securities.

• Overseas Controlled Companies

Industrial and Commercial Bank of China (Asia) Ltd. (“ICBC (Asia)”)

ICBC (Asia), currently the largest overseas business institution of ICBC, has share capital of HKD2,242.52 million, with the Bank holding 59.72% of the shares. It provides comprehensive services such as personal banking business, personal wealth management, commercial business and corporate banking business, and plays a leading role in with respect to syndicate loan and structural loan in the Hong Kong market. As of the end of 2006, ICBC (Asia) reported total assets of HKD146,392 million, ranking sixth among all banks that are registered in Hong Kong with shares of themselves or their parent companies listed on SEHK. It owned net assets of HKD11,085 million, and generated profits attributable to shareholders of HKD1,246 million in 2006.

In 2006, ICBC (Asia) continued to push forward the integration of businesses and institutions. The integration of the Bank’s Hong Kong Peony Card Center was completed in March. In addition, it strengthened the optimisation and adjustment of branch network and set up a preliminary branch network system covering all major commercial areas and areas of commercial potential in Hong Kong.

Industrial and Commercial East Asia Finance Holdings Ltd (“ICEA”)

ICEA, a controlled subsidiary of ICBC, was incorporated in British Virgin Islands on 22 January 1998, and has share capital of USD20 million, with ICBC holding 75% of the shares. It mainly engages in investment banking and brokerage in Mainland China and Hong Kong. ICEA has its main operation in Hong Kong and has representative offices in Beijing, Shanghai and Guangzhou.

• Overseas Wholly-Owned Companies

Industrial and Commercial International Capital Ltd (“ICIC”)

ICIC, a wholly-owned subsidiary of ICBC, was incorporated in Hong Kong, China on 30 March 1973, and has share capital of HKD280 million. It mainly engages in commercial banking business.

Industrial and Commercial Bank of China, London Limited (“ICBC (London)”)

ICBC (London), a wholly-owned bank of ICBC, started its operation in London, UK in September 2003 and its share capital is USD100 million. It principally engages in the business of commercial banking.

Industrial and Commercial Bank of China, Almaty Limited (“ICBC (Almaty)”)

ICBC (Almaty), a wholly-owned bank of ICBC, was incorporated in Almaty, Kazakstan on 3 March 1993 and its share capital is USD10 million. It principally engages in the business of commercial banking.

Industrial and Commercial Bank of China, Luxemburg Limited (“ICBC (Luxemburg)”)

ICBC (Luxemburg), a wholly-owned local bank of ICBC in Luxemburg, was incorporated in 2006 and its registered share capital is USD18.5 million.

Companies ICBC Holds 20% Shares or Above

• Qingdao International Bank

Qingdao International Bank, a Sino-foreign joint venture, was incorporated in Qingdao, Shandong Province on 17 April 1996. Its registered share capital is USD48,198,400, of which ICBC holds 20.83% of the shares. It principally engages in the business of commercial banking.

Information Technology

The Bank implements its “technology-oriented” strategy and has set up an IT system to maintain safe and steady operation, achieve diversified and flexible research and development of products, construct a mature and scientific technical framework and centralise the efficient technology management. In 2006, the Bank was given the “Networking initiative of the Year” award by the Banker and adjudged the “2006 Outstanding Chinese Enterprise in Information Technology Establishment” by China Center for Information Industry Development and China Federation of IT Promotion.

Further Improvement of IT System

The Bank restructured its core application systems to address the needs of its business lines and reduced the operation risk after data centralisation, thereby accelerated the pace of product research and development.

Enrichment of Application Products

The Bank promoted the continuous innovation of financial products through advanced information technology. It completed the development of 173 new application projects and optimised the functions of 365 existing projects. It enriched its products including those in relation to personal wealth management, bank card, e-banking business and made breakthrough in products in relation to settlement and financial market, and provided the customers with abundant and convenient services. In 2006, the Bank submitted 22 patent applications to the State Intellectual Property Office, among which “Utility Model Patent” was granted to two of the applications and invention patent was granted to the “Encryption and Certification Methods of On-line Banking Data”. As of the end of 2006, ICBC owned 58 patents.

Continuous Progression of the Establishment of Management Information

The application of personal credit management system has been promoted across the board, and systems such as corporate credit management system, comprehensive statistics system and personal and corporate customer relationship management system have been further improved and refined. The Bank has completed the promotion of accounting risk monitoring system, and significantly enhanced the competence of operation, management and risk control.

Safe and Stable Operation of Information System

The Bank strengthened the standardised and systematic management of information system, and maintained safe and steady operation of the system. The Bank completed the inter-city disaster backup project for overseas data centralisation system, and emergency and disaster drill for the recovery of business was carried out for the first time in overseas branches. The constant operation of information system was improved, and the emergency and disaster drill for the recovery of business was implemented throughout ICBC.

Human Resources Management

Human Resources Management and Incentive and Disciplinary Measures

The Bank further deepened the reform of human resources management and the incentive and disciplinary measures, and established a modern human resources management system which is focused on the positions of the staff. It introduced the concept of Economic Value Added (EVA) and Gain Sharing Rate (GSR), improved the salary distribution system of the branches, established a performance-based salary distribution system which focuses on the creation of value, and realised the harmonious growth of employee's income, corporate value and shareholders' return. In addition, it further improved the sequential compensation system and promoted the compensation reform for sales and marketing staff and professional staff. It also set up a comprehensive enterprise annuity system and improved the employee welfare security system.

Cultivation and Development of Human Resources

In 2006, ICBC held various training courses of 40,000 terms, and 1.94 million people were trained with 9.43 days training per person on average. It launched four training projects such as "Pine Street" leadership training project and training for senior and professional elites jointly with its strategic investor, Goldman Sachs and held trainings on strategic transition for management personnel at all levels. It also introduced the authoritative qualification certification system in the international financial industry and organised training courses for talents at senior levels such as financial risk managers (FRM) and certified financial planners (CFP), and steadily promoted training programs that lead to professional qualifications with a view to improving employee's expertise. It implemented the pre-job training system for employees, paving way for the standardisation of management and service in the whole bank. It promoted the establishment of IT-based education system, launched the long-distance internet education system, and set up an online university based on the integration of intranet and internet, thereby providing employees with a network platform of on-line training and self-study.

Reform of Head Office and Branches

The Bank initiated integration of process in some key businesses and the restructuring of organisational structure from top to bottom in order to further refine its corporate governance mechanism, build a scientific, reasonable, concise and efficient organisational structure and promote the transition of the Bank's operation and management strategies.

• Reorganisation of Front-Office Business Departments

In respect of the corporate banking business, the Bank established a diversified marketing system for different business categories and set up the Corporate Banking Department I, the Corporate Banking Department II and the Settlement and Cash Management Department at the Head Office to implement direct marketing and management on large customers, medium and small customers and non-loan customers, respectively. In respect of treasury business, it integrated the functions of treasury transactions in both domestic and foreign currencies and set up the Global Market Department in the Head Office to establish a unified platform for treasury transactions and undertake the management responsibilities in treasury transactions of domestic and foreign currencies in the domestic and overseas financial markets.

• Strengthening and Centralising Risk Management Functions

To improve the risk management capability, the Head Office further divided functions such as credit rating, credit review and credit supervision through the establishment of the Credit Rating and Facility Department, the Credit Review Department and the Risk Management Department and the reorganisation of the Credit Management Department. It appointed the Chief Risk Officer to assist the President to supervise and decide on risk management of the Bank. The functions such as customer rating, credit extension, credit evaluation, credit review and credit supervision in operations below Tier-1 branches (branches directly controlled by the Head Office) were centralised to the Credit Review Department, the Credit Management Department or other departments of Tier-1 branches (branches directly controlled by the Head Office) in order to further promote the integrated operation and management of credit business, improve the level of credit review decisions and construct an independent and centralised credit risk control system.

• Integrating the Functions of Capital and Financial Management for Intensified Operations

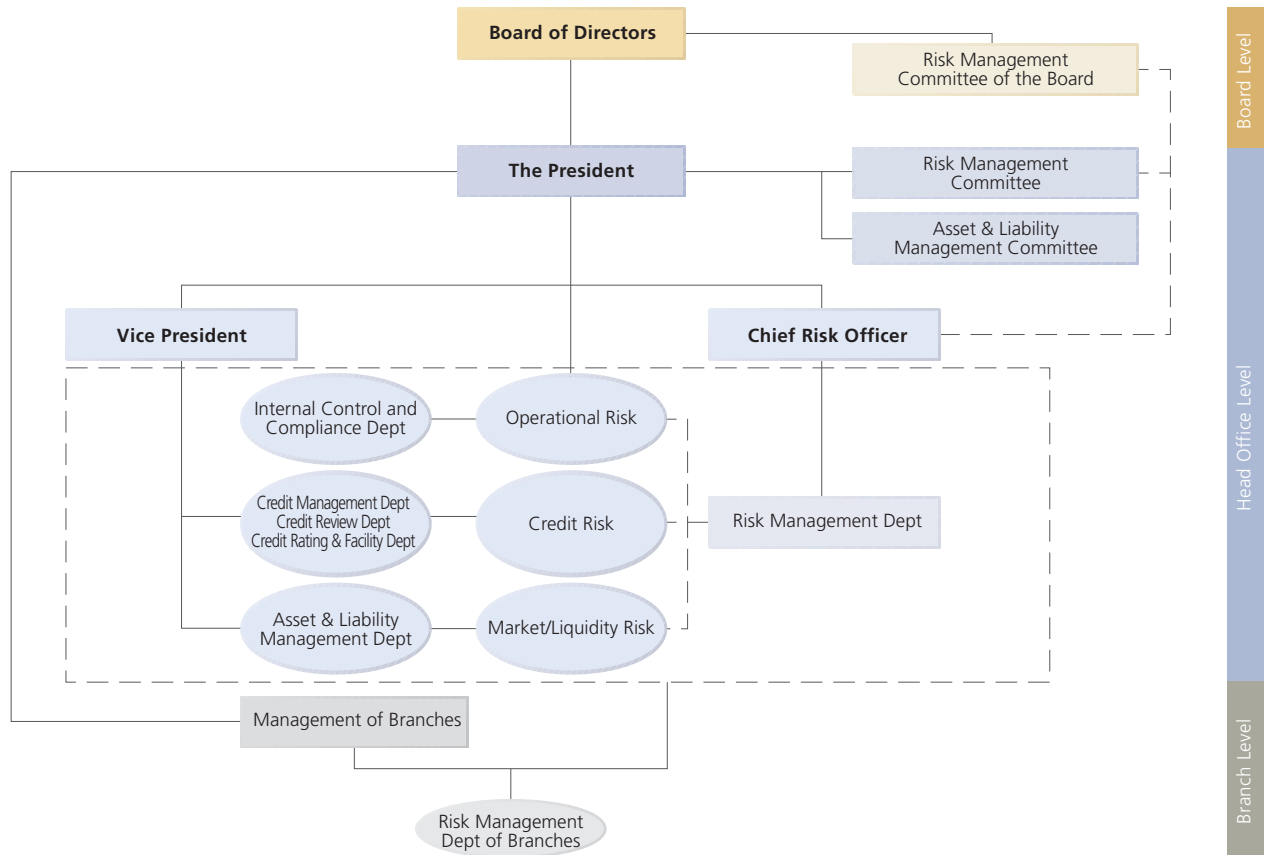
To optimise the allocation and management of economic capital and improve the rate of return, the Head Office set up the Asset & Liability Management Department and the Finance and Accounting Department to undertake the management of assets, liabilities and financial accounting. Besides, it established the Operation Management Department to promote sharing of service and operation resources.

After the reform, the Head Office dissolved the original Corporate Banking Department, the Credit Evaluation Department, the Asset Risk Management Department, the Consumption Credit Management Department, the RMB Treasury Department, the Financial Planning Department and the Accounting and Settlement Department; meanwhile renamed the Personnel Department into the Human Resources Department. It revised the functions of the Institutional Banking Department, the Investment Banking Department and the International Banking Department. Under the overall framework of organisational reform in the Head Office, branches at all levels suitably reformed their own business processes based on the requirements for improving corporate governance structure and transition of operating mechanism.

Risk Management

Risk Management System

See the following chart for the risk management structure of the Bank:

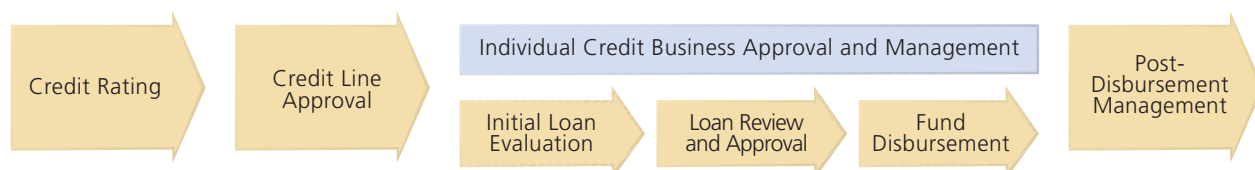


In 2006, ICBC launched organisational reform and process integration in respect of risk management, further refined the comprehensive risk management system and the checks and balances system for risk management restriction, clearly clarified the functions of front, middle and back offices, and defined the risk management responsibilities of all levels. The Bank appointed the Chief Risk Officer to assist the President to supervise and decide on risk management of the Bank. It has established a relatively centralised and independent risk management system which is aimed at improving its risk management capability.

Credit Risk Management

Credit Risk Management in Corporate Loan Business

The Bank further strengthened loan management and improved the loan review procedures so as to ensure the independence and validity of loan review. The process of credit risk management in corporate banking businesses of the Bank is as follow:



In 2006, the Bank pushed forward the intensive operation and management of credit business, improved the capability of credit review and decision-making, built an independent and centralised credit risk control system, and centralised the functions of client rating, credit extension, assessment, review and credit supervision of institutions below tier-1 branches (branches directly controlled by the Head Office) to the Credit Rating and Facility Department and Credit Management Department of tier-1 branches (branches directly controlled by the Head Office) or their sub-divisions or resident teams for unified implementation.

The Bank continued to improve the credit policies for corporate customers, implemented differentiated credit policies by regions, industries, customers, products, etc. and strengthened the adjustment of credit structure. The Bank has refrained from participating in high-risk industries and enterprises in order to avoid the systematic risks effectively.

— Regional credit policies. The Bank analyzed and evaluated the credit business of branches in respect of credit development, risk management, market resources and external credit environment, etc. and adopted various policy instruments to direct and drive the healthy and rapid development of credit businesses in the Yangtze River Delta, Pearl River Delta and Bohai Rim. Besides, the Bank adhered to and improved its risk precaution system and its system in relation to suspension and resumption of trading to impose stringent control over regional risks.

— Industrial credit policies. Based on the trend of macro-economic development and the orientation of industrial policy, the Bank prepared and issued the industrial credit policy in 2006, which covered 22 industries including those with abundant space for entry and those with excessive capacity or potentially excessive capacity. On the principle of “optimisation of total output, appropriate implementation of and exit strategies and appropriate adjustment of structures”, the Bank launched targeted management on some key industries, which defined the priorities and directions of credit extension and set forth the goals of structural adjustment.

- Credit policies for real estate industry. In 2006, the Bank upheld the intensive operation principle of focusing on quality developers and large & medium-sized cities for its real estate credit business. It proactively adjusted the directions of housing loans and gave priority to the construction and consumption of medium/low-grade and medium/small-sized properties in accordance with relevant macroeconomic measures on real estate issued by the government, and strictly controlled the real estate loans in high-risk regions. The Bank increased the proportion of down payment of personal housing mortgage loans according to the regulations, and refused to extend credits to those real estate enterprises with project capital ratio of less than 35% or with outstanding certificates. The Bank further regulated the business flow and established a closed management system for development loans and mortgage loans.
- Credit policies for trade finance. The Bank attached great importance to trade finance in 2006. It set up a preliminary credit management system and credit policies which adapted to the characteristics of trade finance from the perspectives of system, mechanism, flow, product innovation and risk monitoring and control.

Credit Risk Management in Loans to Small Enterprises

- The Bank actively promoted the product and management innovation in the business of credit extension to small enterprises, and implemented differentiated credit policies for small enterprises based on the credit environment, management level and credit resources while steadily driving forward the credit extension to small enterprises.
- By increasing the proportion of the amount of credits extended to individual small enterprise client, the Bank increased the weight of collaterals, and strengthened the monitoring and management over enterprise's cash flow and recovery of loans.
- The Bank upgraded and improved the credit management system, and further implemented the electronic management and rigid control.
- The Bank conducted off-site monitoring over the quality of loans to small enterprises across the whole bank on a monthly basis, analyzed hidden risks and disclosed risk points based on the monitoring results. Sanctions such as warning, rectification and suspension were imposed on branches and institutions whose loan quality was beyond the risk control limit.

Credit Risk Management in Personal Loan Business

- The Bank implemented differentiated personal credit policies according to the regional credit environment and the operation of branch offices, and rationally channeled the credit resources to regions with sound economic environment, abundant financial resources and high-quality credit assets through authorisation and other policy instruments.
- The Bank vigorously developed the business of personal housing loans and personal consumption loans. In respect of personal housing loans, the Bank supported the granting of loan in respect of self-use properties and strictly controlled the mortgage loans in respect of properties that are subject to investment and speculation and high-end properties.

- The Bank improved the Personal Credit Management System (PCM2003 system).
- By launching the Project of Personal Credit Review System, the Bank remarkably improved the credit review process for personal loans, clarified the duties and responsibilities of each link and further enhanced the efficiency and risk control capability.
- The Bank further improved the 5-category classification of personal credit assets, and refined the classification standards and procedures.

Credit Asset Classification Management

The Bank adopted the 12-tier classification management on the quality of corporate loans based on a comprehensive consideration of credit rating, securities provided, number of days of loans remain overdue and other quantitative and qualitative factors of the borrowers. It implemented the 5-tier classification management on the quality of personal loans based on a comprehensive consideration of number of months of borrower being in default, expected loss ratio, credit status, securities provided and other quantitative and qualitative factors of the borrowers. The quality of credit assets was preliminarily classified by the computer system, and the credit management departments manually modified the preliminary classification results according to the actual conditions upon the authorisation, and determined the quality classification of loans. The detailed classification of loan quality was conducive to better monitor the changes in asset quality, identify potential credit risk, effectively carry out post-loan management, and enhanced the overall credit management capacity.

Management of Non-performing Loans

For the management of substandard loans, the Bank mainly monitored the current assets and cash flow of the borrowers, and paid attention to the material business changes. For the management of doubtful loans, the Bank kept a close eye on the business status of the borrowers and the guarantors, enhanced the examination and preservation of borrower's assets, and recovered these loans proactively. For the management of loss loans, the Bank strived to recover such loans apart from writing off such loans in accordance with the regulations.

The Bank adopted the following measures to recover non-performing loans: (i) issuing notice of demanding payment; (ii) cash collection; (iii) restructuring of NPLs; (iv) disposal of collaterals or realisation of guarantee; (v) recovery by legal proceeding or arbitration; and (vi) writing-off in the case of being unable to recover loans by any other methods.

To improve the management of restructured loans, the Bank implemented a series of guidelines in April 2006 which elaborated the definitions, applicable clauses and responsibilities in relation to investigation, review and post-restructuring management for restructured loans. According to these guidelines, the restructured loans should not be immediately classified into any tier higher than substandard after the restructuring. If the restructured loan is still overdue or if the borrower is unable to repay the loan, the restructured loan should not be classified into any tier higher than doubtful. The classification of restructured loans should not be adjusted to a higher tier in the 6-month observation period.

Credit Risk Management in Credit Card Business

The Bank strengthened the early identification, quantitative evaluation and pre-warning control of credit risk in the early stage of the risk management process. The Bank fully improved and launched more than 20 operation processes, implemented the centralised collection of debts under debit card, credit card and wealth management card due from customers, and accomplished centralised credit review of every tier-1 branch. Besides, the Bank organised and promoted the application of peony card review system in 30 tier-1 branches and branches directly controlled by the Head Office, realising the automated, procedural and computerised management of credit review and examination, and implemented the parameter of judgment conditions for anti-fraud authorisation.

Credit Risk Management in Treasury Operation

The investment and inter-bank placement activities of the Bank brought credit risks to the treasury operation of the Bank. The amount of bonds purchased from any domestic or overseas entity except the PRC government or the placement with any other banks at home and abroad shall be subject to the restriction of total credit line approved for the entity. The RMB investment portfolios mainly include debt securities issued by Chinese government and other domestic issuers, while the foreign currency investment portfolios mainly include investment-grade bonds.

Liquidity Risk Management

Liquidity risk means that the Bank fails to raise funds to meet the present or future demands of customers or counterparties at a reasonable cost. The liquidity risks of the Bank are mainly resulted from operating activities such as premature or collective withdrawal by depositors and borrowers, overdue payment of debtors, unmatched asset-liability maturity structure, increasing difficulties in realisation of assets, and the daily management of working capital positions.

Through centralised liquidity management, the Bank centralised funds of tier-2 branches and subordinate branches to tier-1 branches for centralised allocation and management, and guided branches to adjust their asset-liability maturity structure by internal fund transfer pricing system. Moreover, the Bank adopted a series of measures to improve the liquidity management, including: (i) using a series of liquidity parameters to monitor the liquidity position of the Bank on a daily basis, and reporting the monitoring results to Asset & Liability Management Committee quarterly; (ii) constantly monitoring and adjusting the balances and structures of cash, due from PBOC and other banks and other interest-earning assets to ensure meeting the future liquidity demand; (iii) monitoring the liquidity ratio to comply with relevant regulations and internal requirements, and adopting sensitivity analysis to evaluate the liquidity demand of the Bank; (iv) establishing the liquidity risk pre-warning system and contingency plans.

As of the end of 2006, liquidity indicators of the Bank are illustrated below:

LIQUIDITY REGULATORY INDICATORS

		Regulatory Criteria	As at 31 December 2006	As at 31 December 2005
Liquidity Ratio (%) ⁽¹⁾	RMB	>=25.0%	48.9	48.9
	Foreign Currency	>=60.0%	84.8	83.4
Loan-deposit Ratio (%) ⁽²⁾	RMB and Foreign Currency	<=75.0%	50.5	49.9
Borrowing and Loan Ratio (%)	RMB Borrowing Ratio ⁽³⁾	<=4.0%	0.0	0.0
	RMB Loan Ratio ⁽⁴⁾	<=8.0%	0.2	0.1

Notes: (1) Year-end balance of current assets divided by year-end balance of current liabilities.

(2) As for domestic branches, it is calculated by year-end loan balance divided by year-end deposit balance. Loan balance excludes discounted bills, and deposit balance excludes fiscal deposits and outward remittance.

(3) As for domestic branches, it is calculated by dividing RMB net due from and placements with banks and other financial institutions by RMB deposit balance.

(4) As for domestic branches, it is calculated by dividing RMB net due from and placements with banks and other financial institutions (net of provision) by RMB deposit balance.

Market Risk Management

Market risk mainly comes from the changes in interest rate, exchange rate, stock price, the price of bulk commodity, as well as other market changes which may impose impact on products of high market risk sensitivity. Market risks of the Bank mainly consist of interest rate risk and exchange rate risk. The Bank initiatively adapted itself to the reform of market based interest rate and RMB exchange rate regime, and adopted a set of exposure limitations on investment and trade activities, which effectively controlled the potential market loss under the acceptable limit.

The Bank separated the function of monitoring market risk exposure of middle offices from the treasury operation of the front offices. Under the leadership of the Market Risk Management Committee of the Head Office, the Asset & Liability Management Department will be mainly responsible for managing market risk management, and the Global Market Department processed front-office transactions according to the guidelines and limits set by the Asset & Liability Management Department. The Bank classified its assets in accordance with international accounting standards, set market risk limits for trading accounts in accordance with the approved policies, and monitored the market value of our tradable securities on a daily basis. The Bank adopted the analysis methods such as duration, bond convexity and basis point value to evaluate the risks related to trading accounts.

Management of Interest Rate Risk

Interest rate risk refers to the risk that the inferior change of financial positions of the Bank resulted from adverse change in interest rate. The interest rate risks of the Bank mainly come from maturity mismatching of interest-rate-sensitive assets and liabilities or the mismatching of re-pricing date.

The Bank adopted a series of core indicators of interest rate risk management, standards of interest rate sensitivity gap analysis and guidelines on interest rate risk management. The interest rate risk analysis mainly includes evaluation on the gap between interest-rate-sensitive assets and liabilities, and the measurement of potential exposure sensitivity of loan portfolio and total deposits after the changes in interest rate.

In 2006, the Bank took advantage of information technology to improve its management of interest rate risks. The Bank keeps itself informed of market developments through the establishment of the interest rate risk management information system for commercial banks, and the Bank continuously enhanced its capabilities in measuring and monitoring interest rate risk and accurately measured the interest rate sensitivity of assets and liabilities in the entire bank and the impact of change in interest rate to net interest income.

By the end of 2006, the accumulative positive gap of assets and liabilities was RMB504,971 million, while the accumulative negative gap of interest rate sensitivity which matured within one year was about RMB673,234 million, among which the negative gap maturing within 3 months took up the largest proportion. For the adverse impact of negative gap maturing within one year, the Bank reduced the interest rate risk exposure by adjusting the loan re-pricing period and controlled the re-pricing period of most credit assets within one year in order to obtain benefits from interest rate rise during the ascending period of interest rate.

Management of Exchange Rate Risk

ICBC's management of exchange rate risk includes the risk management on structural exposures and trade-related exposures.

Structural exposure was caused by currency mismatching between structural assets and structural liabilities. The Bank eliminated exchange rate risks arising from currency mismatching of assets and liabilities by matching the currency structure of assets and liabilities. In addition, the Bank reduced the scale of foreign currency exposures through foreign exchange settlement to manage and control exchange rate risk.

In April 2005, the Bank and Huijin entered into an agreement on purchase of a foreign currency option with a nominal principal of USD12 billion. According to the agreement, the Bank may convert the foreign currency assets of up to USD12 billion into RMB at the agreed exchange rate of RMB8.2765 per dollar, and the option can be exercised in equal installments in the 12 months of 2008. Meanwhile, the Bank shall pay Huijin total option expense of RMB2,979 million in equal installment in the 12 months of 2008.

In 2006, the Bank obtained the approval from State Administration of Foreign Exchange to settle partial foreign currency working capital, the contributed capital of Goldman Sachs Strategic Investment Group and the foreign exchange funds raised in IPO and such settlement amounted to USD10.8 billion. The remaining foreign exchange funds raised in IPO has been settled and swapped by the end of March 2007.

Trade-related exposure mainly arises from risks in proprietary or customer-driven foreign exchange transactions of the Bank. The Bank managed and controlled the exchange rate risk arising from trade-related exposure by establishing trade-related exposure limit and stop-loss limit, entering into financial derivatives transactions and foreign exchange transactions and the establishment of forward foreign exchange settlement & trade system according to its risk bearing capacity and transaction level.

The Bank monitored foreign exchange risk exposure on a quarterly basis and reported it to CBRC, and analyzed the sensitivity of exchange rate risks quarterly and submitted the exchange rate risk management report to the Risk Management Committee at the management level.

Operational Risk Management and Internal Control

Operational risk refers to the risk of loss caused by inadequate and failed internal control, artificial or systematic factors, or external events. The operational risks of the Bank arise from various factors including internal fraud, external fraud, customers, products and business operation, implementation, delivery and process management, business interruption and system fault, damage to physical assets, employment policies and workplace safety, and the legal proceedings brought against malpractices.

In 2006, the Bank continually improved the management framework, system platform and technical methods for operational risk management, and further enhanced the management of operational risk of the whole bank. In particular, the Bank modified the work rules of Operational Risk Management Committee, clarified the definition and classification of operational risk and clarified the operation mechanism and environment construction for operational risk management under the framework of comprehensive risk management. The Bank promoted and implemented Operational Risk Management Manual across the bank, and organised the monitoring of operational risk to identify, report and disclose operational risks in relevant businesses in a timely manner. The Bank studied and formulated Provisional Measures on Statistics Management of Operational Risk Loss Events, intensified the efforts to IT system research and development, and consolidated rigid control over operational risk management. The Bank actively launched inspections of the operational risk management, evaluated risk status objectively and fostered the culture of operational risk management which resulted in the effective control of operational risks across the board.

In 2006, the construction of internal control system was continuously deepened. The Bank improved the corporate governance structure, established the Risk Management Committee and the Asset & Liability Management Committee at the level of the Management and appointed Chief Risk Officer. Through organisational reform, the Bank further promoted effective separation and process rebuilding of front-, middle- and back-office business, and restructured the corporate banking department, personal banking department and treasury business department. A highly flexible asset-liability management system has been formed, and the Bank has set up a new financial management system that minimises cost, risks and capital and a unified united capital transaction platform covering both domestic and international markets. The Bank simplified the management hierarchy in branches and marketing outlets, implemented the streamlined structure, and improved the efficiency of control. It enhanced formulation of business regulations, formulated Business Operation Guidelines and the standardised operation processes for over-the-counter businesses. The Bank started to establish the management system for the rank structure with emphasis on nature and value, and gradually set up a diversified promotion, performance evaluation and remuneration incentive system for employees. The Bank further intensified the compliance inspection on various businesses and internal control evaluations on tier-1 branches, branches directly controlled by the Head Office and the front line offices, and developed the information system for internal control evaluation to improve the efficiency and results of internal control evaluation.

Anti-Money Laundering

In accordance with relevant laws, regulations and supervisory requirements on anti-money laundering, the Bank continually improved the internal control system for anti-money laundering, carefully verified and identified the identity of customers, preserved account opening materials and transaction records of customers in accordance with the provisions, reported large-value and suspicious transactions to the supervisory agencies, and assisted the supervisory and administrative authorities to investigate and sanction anti-money laundering activities in accordance with the law.

In 2006, the Bank conducted a special inspection on anti-money laundering across the bank which involved various aspects such as the establishment of anti-money laundering institutions and relevant internal control system, appointment of anti-money laundering staff, identification of customer's identity, reporting and registration of large-value and suspicious transactions, preservation of account information and transaction records, anti-money laundering education and training. The Bank held various trainings on anti-money laundering to improve the awareness of management personnel at all levels on anti-money laundering responsibilities, and consolidated the skills and experience of heads and operators of the basic divisions.

Public Charity Projects

Assistance to Designated Poverty Alleviation Areas

We assisted in the alleviation of poverty by focusing our efforts in the provision of education assistance, sanitation assistance, disaster relief and specific poverty relief and by assisting local governments in the construction of new countryside. In 2006, we donated a total of RMB1.673 million and organised the employees to donate RMB113,000 to local people during the severe draught in designated poverty alleviation areas.

Assistance to Agriculture Division No. 12 of Xinjiang Production and Construction Corps and Burqin County of Aletai Region

ICBC donated RMB900,000 in total to Burqin County of Aletai region of Xinjiang and Agriculture Division No. 12 of Xinjiang Production and Construction Corps to which the fifth Xinjiang-supporting cadres are attached for improvement of educational and living conditions of local students.

Donation to Heifer International

We donated HKD800,000 to Hong Kong Branch of Heifer International and took part in the specific poverty alleviation program by promoting the domestic breeding project in Wanyuan City and Nanjiang County of Sichuan Province to relieve the local farmers from poverty and spread the spirit of self-support and helping each other.

Sponsorship to Treasures of the World's Culture

ICBC sponsored the Treasures of the World's Culture activity jointly held by British Museum and Capital Museum of China with a contribution of GBP50,000.

Donation to the Community Chest

ICBC donated HKD1 million to the Community Chest on 27 October 2006.

Contributions to the "Caring for the Disabled: Legal Aid Program"

ICBC donated RMB2.3 million on the fifth International Day of Disabled Persons and held the "ICBC and The Same Song of CCTV: Legal Aid to the Disabled" activity together with the Department of Justice and China Disabled Persons Federation at the Great Hall of the People.