Independent Auditors' Report and Financial Statements

ICBC

Independent Auditors' Report

ERNST & YOUNG

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

To the shareholders of Industrial and Commercial Bank of China Limited

(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements of Industrial and Commercial Bank of China Limited (the ''Bank'') and its subsidiaries (collectively referred to as the ''Group'') set out on pages 119 to 209, which comprise the consolidated and the company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank and of the Group as at 31 December 2006, and of the Group's financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
3 April 2007

Consolidated Income Statement

Year ended 31 December 2006
(In RMB millions, unless otherwise stated)

	Notes	2006	2005
Interest income	5	272,941	240,202
Interest expense	5	(109,823)	(86,599)
NET INTEREST INCOME	5	163,118	153,603
Fee and commission income	6	18,529	12,376
Fee and commission expense		(2,185)	(1,830)
NET FEE AND COMMISSION INCOME		16,344	10,546
Other operating income, net	7	2,176	7,471
OPERATING INCOME		181,638	171,620
Operating expenses	8	(77,397)	(81,585)
Provisions for impairment losses on:			
Loans and advances to customers	19	(30,014)	(26,589)
Others	11	(2,175)	(425)
OPERATING PROFIT		72,052	63,021
Share of profits and losses of associates		13	5
PROFIT BEFORE TAX		72,065	63,026
Income tax expense	12	(22,185)	(25,007)
PROFIT FOR THE YEAR		49,880	38,019
Attributable to:			
Equity holders of the Bank		49,263	37,555
Minority interests		617	464
		49,880	38,019
DIVIDENDS	14		
Interim		18,593	—
Special		10,146	—
Proposed final		5,344	3,537
		34,083	3,537
Earnings per share attributable to equity holders of the Bank			
— Basic and diluted (RMB yuan)	15	0.18	0.15

Consolidated Balance Sheet

31 December 2006
(In RMB millions, unless otherwise stated)

	Notes	2006	2005
ASSETS			
Cash and balances with central banks	16	703,657	553,873
Due from banks and other financial institutions	17	206,506	132,162
Reverse repurchase agreements	18	39,218	89,235
Loans and advances to customers	19	3,533,978	3,205,861
Investment securities	20	2,860,798	2,305,689
Investments in associates	22	127	120
Property and equipment	23	87,609	92,984
Other assets	24	76,858	76,207
TOTAL ASSETS		**7,508,751**	**6,456,131**
LIABILITIES			
Due to banks and other financial institutions	25	400,318	232,910
Repurchase agreements	26	48,610	32,301
Certificates of deposits		6,458	5,704
Due to customers	27	6,351,423	5,736,866
Income tax payable		16,386	14,641
Deferred income tax liabilities	12	1,449	1,418
Debt issued	28	37,947	38,076
Other liabilities	29	175,159	134,339
TOTAL LIABILITIES		**7,037,750**	**6,196,255**
EQUITY			
Issued share capital	30	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**
TOTAL EQUITY AND LIABILITIES		**7,508,751**	**6,456,131**

Jiang Jianqing
Chairman

Yang Kaisheng
Vice Chairman and President

Gu Shu
General Manager of Finance
and Accounting Department

Consolidated Statement of Changes in Equity

Year ended 31 December 2006
(In RMB millions, unless otherwise stated)

		Attributable to equity holders of the Bank										
			Reserves									
	Notes	Issued share capital	Capital reserve	Surplus reserves	General reserve	Investment revaluation reserve	Foreign currency translation reserve	Subtotal	Retained profits	Total	Minority interests	Total equity
Balance as at 1 January 2006		248,000	(1,379)	375	1,700	2,032	(169)	2,559	5,280	255,839	4,037	259,876
Net change in the fair value of available-for-sale investments		—	—	—	—	95	—	95	—	95	248	343
Reserve realised on disposal of available-for-sale investments		—	—	—	—	15	—	15	—	15	—	15
Foreign currency translation		—	—	—	—	—	(182)	(182)	—	(182)	(105)	(287)
Total income and expense for the year recognised directly in equity		—	—	—	—	110	(182)	(72)	—	(72)	143	71
Profit for the year		—	—	—	—	—	—	—	49,263	49,263	617	49,880
Total income and expense for the year		—	—	—	—	110	(182)	(72)	49,263	49,191	760	49,951
Issue of shares	30	86,019	110,685	—	—	—	—	110,685	—	196,704	—	196,704
Share issue expenses		—	(2,994)	—	—	—	—	(2,994)	—	(2,994)	—	(2,994)
Dividend — 2005 final	14	—	—	—	—	—	—	—	(3,537)	(3,537)	—	(3,537)
Dividend — 2006 interim	14	—	—	—	—	—	—	—	(18,593)	(18,593)	—	(18,593)
Dividend — 2006 special	14	—	—	—	—	—	—	—	(10,146)	(10,146)	—	(10,146)
Appropriation to surplus reserves (i)		—	—	5,089	—	—	—	5,089	(5,089)	—	—	—
Appropriation to general reserve		—	—	—	11,019	—	—	11,019	(11,019)	—	—	—
Dividends paid to minority shareholders		—	—	—	—	—	—	—	—	—	(260)	(260)
Balance as at 31 December 2006		334,019	106,312	5,464	12,719	2,142	(351)	126,286	6,159	466,464	4,537	471,001

(i) Includes the appropriation made by subsidiaries and overseas branches in the amount of RMB14 million in aggregate.

(In RMB millions, unless otherwise stated)

	Attributable to equity holders of the Bank												
			Reserves										
	Issued share capital	Paid-up capital	Capital reserve	Surplus reserves	General reserve	Asset revaluation reserve	Investment revaluation reserve	Foreign currency translation reserve	Subtotal	Retained profits/ (accumulated losses)	Total	Minority interests	Total equity
Balance as at 1 January 2005	—	160,669	(1,780)	14,818	—	—	1,927	369	15,334	(687,716)	(511,713)	3,668	(508,045)
Net change in the fair value of available-for-sale investments	—	—	—	—	—	—	3,453	—	3,453	—	3,453	—	3,453
Reserve recognised on the disposal of available-for-sale investments	—	—	—	—	—	—	480	—	480	—	480	—	480
Foreign currency translation	—	—	—	—	—	—	—	(217)	(217)	—	(217)	(61)	(278)
Assets revaluation surplus arising from the restructuring	—	—	—	—	—	22,697	—	—	22,697	—	22,697	—	22,697
Total income and expense for the year recognised directly in equity	—	—	—	—	—	22,697	3,933	(217)	26,413	—	26,413	(61)	26,352
Profit for the year	—	—	—	—	—	—	—	—	—	37,555	37,555	464	38,019
Total income and expense for the year	—	—	—	—	—	22,697	3,933	(217)	26,413	37,555	63,968	403	64,371
Restructuring:													
Capital injection	—	124,148	19,906	—	—	—	—	—	19,906	—	144,054	—	144,054
Equity contribution arising from the disposal of impaired assets	—	—	567,558	—	—	—	—	—	567,558	—	567,558	—	567,558
Elimination of capital and reserves with accumulated losses and transfer of paid-up capital, reserves and accumulated losses to share capital (note 30)	248,000	(284,817)	(587,063)	(14,818)	—	(22,697)	(3,828)	(321)	(628,727)	657,516	(8,028)	—	(8,028)
Appropriation to surplus reserves	—	—	—	375	—	—	—	—	375	(375)	—	—	—
Appropriation to general reserve	—	—	—	—	1,700	—	—	—	1,700	(1,700)	—	—	—
Subsidiary's shares issued to a minority shareholder	—	—	—	—	—	—	—	—	—	—	—	204	204
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	—	—	—	(238)	(238)
Balance as at 31 December 2005	248,000	—	(1,379)	375	1,700	—	2,032	(169)	2,559	5,280	255,839	4,037	259,876

Consolidated Cash Flow Statement

Year ended 31 December 2006
(In RMB millions, unless otherwise stated)

	Notes	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		72,065	63,026
Adjustments for:			
Share of profits and losses of associates		(13)	(5)
Depreciation	8	9,697	9,852
Amortisation	8	1,031	712
Provisions for impairment losses on loans and advances to customers	19	30,014	26,589
Provisions for impairment losses on assets other than loans and advances to customers	11	2,175	425
Foreign exchange difference		3,413	(1,059)
Interest expense on debt issued	5	1,259	490
Accretion of impairment provision discount	5	(1,890)	(8,349)
Gain on disposal of available-for-sale securities, net	7	(113)	(384)
Loss/(gain) on trading securities, net	7	71	(27)
Loss/(gain) on financial assets and liabilities designated at fair value through profit or loss, net	7	404	(637)
Gain on derivatives and other instruments, net	7	(1,038)	(266)
Gain on disposal of property and equipment and other assets, net	7	(328)	(626)
Dividend income from unlisted investments	7	(28)	(2)
		116,719	89,739
Net decrease/(increase) in operating assets:			
Due from central banks		(143,369)	(54,454)
Due from banks and other financial institutions		(11,564)	4,510
Reverse repurchase agreements		(20,994)	(902)
Loans and advances to customers		(371,658)	(244,536)
Other assets		3,410	(9,464)
		(544,175)	(304,846)
Net increase/(decrease) in operating liabilities:			
Due to a central bank		—	(4,865)
Due to banks and other financial institutions		167,408	27,215
Repurchase agreements		16,309	5,962
Certificates of deposits		754	2,024
Due to customers		620,382	560,584
Other liabilities		39,239	(5,332)
		844,092	585,588
Net cash inflow from operating activities before tax		416,636	370,481
Income tax paid		(20,415)	(2,987)
Net cash inflow from operating activities		396,221	367,494

(In RMB millions, unless otherwise stated)

	Notes	2006	2005
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment and other assets		(6,607)	(9,684)
Proceeds from disposal of property and equipment		1,522	5,177
Purchases of investments		(2,352,936)	(719,996)
Proceeds from sale and redemption of investments		2,014,537	327,090
Dividend received		34	2
Net cash outflow from investing activities		(343,450)	(397,411)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		188,676	124,148
Share issue expenses		(2,994)	—
Capital contribution by minority shareholders		—	166
Repayment of debt issued		—	(138)
Proceeds from debt issued		—	35,000
Interest paid on debt issued		(1,234)	(490)
Dividends paid on ordinary shares		(22,130)	—
Dividends paid to minority shareholders		(260)	(238)
Net cash inflow from financing activities		162,058	158,448
NET INCREASE IN CASH AND CASH EQUIVALENTS		214,829	128,531
Cash and cash equivalents at beginning of the year		294,424	168,019
Effect of exchange rate changes on cash and cash equivalents		(2,459)	(2,126)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	32(a)	506,794	294,424
NET CASH INFLOW FROM OPERATING ACTIVITIES INCLUDES:			
Interest received		269,630	208,975
Interest paid		(95,903)	(82,274)

Balance Sheet

31 December 2006
(In RMB millions, unless otherwise stated)

	Notes	2006	2005
ASSETS			
Cash and balances with central banks	16	703,245	553,572
Due from banks and other financial institutions	17	169,454	129,926
Reverse repurchase agreements	18	39,218	89,235
Loans and advances to customers	19	3,454,432	3,131,096
Investment securities	20	2,854,401	2,297,831
Investments in subsidiaries	21	7,260	7,112
Investment in an associate	22	74	74
Property and equipment	23	87,251	92,615
Other assets	24	73,313	73,364
TOTAL ASSETS		**7,388,648**	**6,374,825**
LIABILITIES			
Due to banks and other financial institutions	25	398,573	231,434
Repurchase agreements	26	49,119	33,109
Due to customers	27	6,251,403	5,671,854
Income tax payable		16,176	14,627
Deferred income tax liabilities	12	1,327	1,418
Debt issued	28	35,000	35,000
Other liabilities	29	172,460	132,533
TOTAL LIABILITIES		**6,924,058**	**6,119,975**
EQUITY			
Issued share capital	30	334,019	248,000
Reserves	31	124,872	1,955
Retained profits	31	5,699	4,895
TOTAL EQUITY		**464,590**	**254,850**
TOTAL EQUITY AND LIABILITIES		**7,388,648**	**6,374,825**

Jiang Jianqing
Chairman

Yang Kaisheng
Vice Chairman and President

Gu Shu
General Manager of Finance
and Accounting Department

1. CORPORATE INFORMATION

Industrial and Commercial Bank of China (''ICBC'') was a wholly-state-owned commercial bank founded on 1 January 1984. Its establishment was authorised by the State Council and the People's Bank of China (the ''PBOC'') of the People's Republic of China (the ''PRC''). On 28 October 2005, with the approval of the State Council of the PRC, ICBC was restructured and incorporated as a joint-stock limited company. ICBC then changed its name to Industrial and Commercial Bank of China Limited (the ''Bank''). The registered office of the Bank is located at No. 55 Fuxingmennei Avenue, Xicheng District, Beijing, the PRC.

During the year, certain issued shares of the Bank have been listed on The Stock Exchange of Hong Kong Limited (''SEHK'') and the Shanghai Stock Exchange (''SSE'') respectively. Details are set out in note 30 to the financial statements.

As at 31 December 2006, the Bank had established domestic branches in 35 provinces, autonomous regions and municipalities directly under the central government of the PRC (the ''Government''), and 8 overseas branches outside Mainland China. The Bank and its subsidiaries are collectively referred to as the Group. Particulars of the Bank's principal subsidiaries are set out in note 21 to the financial statements.

The principal activities of the Group comprise the provision of banking services including Renminbi (''RMB'') and foreign currency deposits, loans, payment and settlement services, and other services as approved by the China Banking Regulatory Commission (the ''CBRC'') of the PRC, and the provision of related services by its overseas establishments as approved by the respective local regulators.

2.1 BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (''IFRSs'') and its interpretations promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain property and equipment, derivative financial instruments, financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets that have been measured at revalued amounts or fair values, as further explained in the respective accounting policies below. The carrying values of recognised assets and liabilities, that are hedged items in fair value hedges and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged. These financial statements are presented in RMB and all values are rounded to the nearest million except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries. The financial statements of subsidiaries for the purpose of preparation of these consolidated financial statements are prepared for the same reporting period as the Bank, using the consistent accounting policies.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Where there is a loss of control in a subsidiary, the consolidated income statements include the results of that subsidiary for the part of the reporting period during which the Bank has control. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated income statement, and within equity in the consolidated balance sheet separately from the equity attributable to equity holders of the Bank.

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has used its judgements and made assumptions of the effects of uncertain future events on the financial statements. The most significant use of judgements and key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, is described below.

Designation of held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and a fixed maturity are classified as held-to-maturity investments when the Group has the positive intention and ability to hold the investments to maturity. Accordingly, in evaluating whether a financial asset shall be classified as held-to-maturity investment, significant management judgement is required. If the Group fails to correctly assess its intention and ability to hold the investments to maturity and the Group sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, the Group shall reclassify the whole held-to-maturity investment portfolio as available-for-sale.

Impairment losses of loans and advances

The Group determines periodically whether there is any objective evidence that impairment losses on loans and advances have incurred. If any such evidence exists, the Group assesses the amount of impairment losses. The amount of impairment losses is measured as the difference between the carrying amount and the present value of estimated future cash flows. Assessing the amount of impairment losses requires significant judgement on whether the objective evidence for impairment exists and also significant estimates when determining the present value of the expected future cash flows.

Income tax

Determining income tax provisions requires the Group to estimate the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant estimation on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

Fair value of financial instruments

If the market for a financial instrument is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. To the extent practicable, valuation technique makes maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on areas such as credit risk (both own and counterparty's), volatility and correlation. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Subsidiaries

A subsidiary is an entity whose financial and operating policies the Bank controls, directly and indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Bank's income statement to the extent of dividends received and receivable. The Bank's investments in subsidiaries are stated at cost less any impairment losses.

(2) Investments in associates

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. The Group's investments in associates are accounted for under the equity method of accounting.

Under the equity method, an investment in an associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less any impairment losses. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The consolidated income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The results of associates are included in the Bank's income statement to the extent of dividends received and receivable. The Bank's investments in associates are stated at cost less any impairment losses.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

(3) Foreign currency translation

The consolidated financial statements are presented in RMB, being the functional and presentation currency of the Bank's operations in Mainland China. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the dates of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the applicable exchange rates ruling at the balance sheet date. Exchange differences arising on the settlement of monetary items or on translating monetary items at period end rates are recognised in the income statement, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity which are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also recorded in equity.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates ruling at the dates of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates ruling at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the rates ruling at the balance sheet date.

At each balance sheet date, the assets and liabilities of the subsidiaries and foreign branches are translated into the presentation currency of the Group at the exchange rates ruling at the balance sheet date. Their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on translation are taken directly to equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

(4) Financial assets

Financial assets in the scope of International Accounting Standard (''IAS'') 39 are classified as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets which are either classified as held-for-trading or are designated by the Group as fair value through profit or loss upon initial recognition. Financial assets are classified as held-for-trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

A financial asset, other than that held-for-trading, may be designated as financial assets at fair value through profit or loss upon initial recognition, if it meets any of the criteria set out below, and is so designated by management.

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or from recognising the gains and losses on them on different bases;

- it applies to a group of financial assets, financial liabilities or both that is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

After initial recognition, these financial assets are measured at fair value. All related realised and unrealised gains or losses are included in the income statement.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Group has the positive intention and ability to hold to maturity. These investments are carried at amortised cost using the effective interest method, less any allowance for impairment in value. Gains and losses are recognised in the income statement when the held-to-maturity investments are derecognised or impaired, as well as through the amortisation process.

An entity shall not classify any financial assets as held-to-maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) other than sales or reclassifications that:

(i) are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

(ii) occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or

(iii) are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group has no intention of trading the assets immediately or in the near term. Such assets are carried at amortised cost using the effective interest method, less allowance for impairment losses. Gains and losses are recognised in the income statement when receivables are derecognised or impaired, as well as through the amortisation process.

Discounted bills are granted by the Group to its customers based on the bank acceptance held which has not matured. Discounted bills are carried at face value less unrealised interest income and the interest income of the discounted bills is recognised on an accrual basis.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value. Premiums and discounts on available-for-sale financial assets are amortised using the effective interest method and are taken to the income statement as interest income. Changes in fair value of available-for-sale financial assets are recognised as a separate component of equity until the financial asset is derecognised or until the financial asset is determined to be impaired at which time the cumulative gains or losses previously reported in equity are included in the income statement.

(5) Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence of impairment of financial assets as a result of one or more events that occur after the initial recognition of those assets (''loss event'') and whether the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to eliminate the impact of historical conditions that do not exist currently.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the assets does not exceed its amortised cost at the reversal date.

When a loan and receivable is uncollectible, it is written off against the related allowance for impairment losses. Such loans and receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

Financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of impairment loss is measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement.

Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement. Reversals of impairment losses on debt instruments classified as available-for-sale are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment losses was recognised in the income statement.

(6) Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or deposits, debt securities issued or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities which are either classified as held-for-trading or, based on the criteria in note 3(4) are designated by the Group as fair value through profit or loss upon initial recognition. Gains and losses from changes in fair value are recognised in the income statement.

Deposits, debt securities issued and other financial liabilities

Deposits, debt securities issued other than those designated as trading liabilities or at fair value through profit or loss, and other financial liabilities are carried at amortised cost.

(7) Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the assets have expired;

- the Group retains the right to receive cash flows from the assets, but has assumed an obligation to pay them in full without material delay to a third party under a ''pass-through'' arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of ownership of the financial asset; or (ii) has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

(8) Derivatives and hedge accounting

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the hybrid instrument is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the income statement.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the IAS 39 and are therefore treated as derivatives held for trading with fair value gains or losses recognised in the income statement. Hedges which meet the strict criteria for hedge accounting are accounted for in accordance with the Group's accounting policy as set out below.

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and the gains and losses from both are taken to the income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised and charged to the income statement. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement. The changes in the fair value of the hedging instrument are also recognised in the income statement.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

(9) Trade date accounting

All regular way purchases and sales of financial assets are recognised at the trade date, which is the date that the Group commits to purchase or sell the assets. A regular way purchase or sale is the purchase or sale of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the marketplace.

(10) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet if, and only if, the Group has a legally enforceable right to offset such amounts with the same counterparty and an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(11) Repurchase and reverse repurchase transactions

Assets sold under agreements to repurchase at a specified future date (''repos'') are not derecognised from the balance sheet. The corresponding cash received, including accrued interest, is recognised on the balance sheet as a ''repurchase agreement'', reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest method.

Conversely, assets purchased under agreements to resell at a specified future date (''reverse repos'') are not recognised on the balance sheet. The corresponding cash paid, including accrued interest, is recognised on the balance sheet as a ''reverse repurchase agreement''. The difference between the purchase and resale prices is treated as an interest income and is accrued over the life of the agreement using the effective interest method.

(12) Property and equipment

Property and equipment were stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, and the where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of the assets or as a replacement.

Fair value is determined by reference to market-based evidence, which is the amount for which the asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Revaluations are performed on items which experience significant and volatile movements in fair value.

Any revaluation surplus is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation deficit of the same asset previously recognised in the income statement, in which case the surplus is recognised in the income statement. A revaluation deficit is recognised in the income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve. Upon disposal of an asset, any asset revaluation reserve relating to the particular asset being sold is transferred to retained profits.

Construction in progress comprises the direct costs of construction during the period of construction and is not depreciated. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over the estimated useful life of each asset as follows:

	Estimated useful lives
Properties and buildings	5 to 35 years
Leasehold improvements	Economic useful lives or remaining lease terms, whichever is shorter
Office equipment and computers	3 to 5 years
Motor vehicles	4 to 6 years

Where parts of an item of property and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

(13) Land use rights

Land use rights are recognised at cost, being the fair value at the time of injection from the Government or the consideration paid. The rights are amortised using the straight-line basis over the period of the leases. When the prepaid land lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of properties and buildings as finance leases in property and equipment.

(14) Repossessed assets

Repossessed assets are initially recognised at cost and reviewed at each balance sheet date by the management of the Group to assess whether they are recorded in excess of their recoverable amount, and if their carrying value exceeds the recoverable amount, the assets are written down. Impairment losses are charged to the income statement.

(15) Goodwill

Goodwill arising from a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on the Bank's reporting format determined in accordance with IAS 14 ''Segment Reporting''.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the income statement.

(16) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined on an individual basis, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use of an asset, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement under those expense categories consistent with the function of the impaired assets, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of any depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation/amortisation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(17) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, amounts due from central banks with original maturity of three months or less, amounts due from banks and other financial institutions with original maturity of three months or less, reverse repurchase agreements with original maturity of three months or less, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

(18) Operating leases

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. Rental payments applicable to such operating leases are charged to the income statement on the straight-line basis over the lease terms.

(19) Related parties

A party is considered to be related to the Group if:

(i) the party, directly or indirectly through one or more intermediaries, (a) controls, is controlled by, or is under common control with, the Group; (b) has an interest in the Group that gives it significant influence over the Group; or (c) has joint control over the Group;

(ii) the party is an associate of the Group;

(iii) the party is a joint venture in which the Group is a venturer;

(iv) the party is a member of the key management personnel of the Group or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

(20) Recognition of income and expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income and expense

For all financial instruments measured at amortised cost and interest-bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as an interest income or expense.

Once the recorded value of a financial assets or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(i) **Fee income from services that are provided over a certain period of time**

Fees earned from the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

(ii) **Fee income from providing transaction services**

Fees arising from negotiating or participating in the negotiation of a transaction for a third party such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Dividend income is recognised when the Bank's right to receive payment has been established.

Net trading income

Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities that are held-for-trading. This includes any ineffectiveness recorded in hedging transactions.

(21) Income tax

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Deferred tax

Deferred income tax is provided using the liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(22) Employee benefits

Short term employee benefits

Salaries and bonuses, social security contributions and other short term employee benefits are accrued in the period in which services have been rendered by the employees of the Group.

Defined contribution plans

According to the statutory requirements in Mainland China, the Group is required to make contributions to defined contribution schemes separately administered by the local government authorities.

In addition, employees in Mainland China also participate in a contribution retirement benefit plan established by the Bank (the ''Annuity Plan''). The Bank and its employees are required to contribute a certain percentage of the employees' previous year basic salaries to the Annuity Plan. The Bank pays fixed contribution into the Annuity Plan and has no obligation to pay further contribution if the Annuity Plan does not hold sufficient assets to pay all employees benefits.

All eligible employees outside Mainland China participate in local defined contribution schemes. The Group contributes to these defined contribution plans based on a certain percentage of the employees' basic salaries.

Contributions to these plans are recognised in the income statement as incurred.

Supplementary retirement benefits

Certain employees of the Group in Mainland China who retired before 30 June 2005 can enjoy supplementary retirement benefits after retirement, which include supplementary pension and supplementary medical benefits. These benefits are unfunded. The cost of providing benefits is determined using the projected unit credit actuarial cost method. The present value of such benefits was recorded as ''Other liabilities'' in the balance sheet. Actuarial gains and losses were recognised in the income statement in the period in which they occur.

During the year, the Group settled the supplementary retirement benefit liabilities with an equivalent amount of assets. After the settlement, the assets and liabilities were segregated into a fund (the ''Fund'') separately held and managed by ICBC Provident Fund Committee, which is designated to administer and manage the Fund and the payment of supplementary retirement benefits independently in the future. The Group has no future obligation on the supplementary retirement benefit liabilities.

Share-based payment transactions

For the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations, eligible employees (including directors, supervisors, senior management and other key personnel of the Group) would be granted share appreciation rights, which can only be settled in cash (''cash-settled transactions'').

The cost of cash-settled transactions is measured initially at fair value at the grant date. The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is measured at each balance sheet date up to and including the settlement date with changes in fair value recognised in the income statement.

(23) Fiduciary activities

Where the Group acts in a fiduciary capacity such as nominee, trustee or agent, assets arising thereon together with related undertakings to return such assets to customers are excluded from the balance sheet.

The Group grants entrusted loans on behalf of third-party lenders, which are recorded off-balance sheet. The Group, as an agent, grants such entrusted loans to borrowers under the direction of those third-party lenders who fund these loans. The Group has been contracted by those third-party lenders to manage the administration and collection of these loans on their behalf. Those third-party lenders determine both the underwriting criteria for and the terms of all entrusted loans including their purposes, amounts, interest rates, and repayment schedules. The Group charges a commission related to its activities in connection with entrusted loans which are recognised ratably over the period in which the service is provided. The risk of loss is borne by those third-party lenders.

(24) Financial guarantee contracts

The Group issues financial guarantee contracts, including letters of credit, letters of guarantee and acceptance. These financial guarantee contracts provide for specified payments to be made to reimburse the holder for a loss it incurs when a guaranteed party defaults under the original or modified terms of a debt instrument, loan or other obligation.

The Group initially measures all financial contracts at fair value, in other liabilities, being the premium received. This amount is recognised ratably over the period of the contract to fee and commission income. Subsequently, the liabilities are measured as the higher of the initial fair value less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to a financial guarantee is taken to the income statement. The premium received is recognised in the income statement as fee and commission income and on a straight-line basis over the life of the guarantee.

(25) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expenses relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

(26) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

Contingent liabilities are not recognised but are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(27) Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividends for the year that are approved after the balance sheet date are disclosed as an event after the balance sheet date.

(In RMB millions, unless otherwise stated)

4. IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in these financial statements.

IAS 1 Amendment	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRIC interpretation 8	Scope of IFRS 2
IFRIC interpretation 9	Reassessment of Embedded Derivatives
IFRIC interpretation 10	Interim Financial Reporting and Impairment
IFRIC interpretation 11	IFRS 2 — Group and Treasury Share Transactions

The IAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Bank regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

IFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

IFRS 8 shall be applied for annual periods beginning on or after 1 January 2009 and will replace the existing IAS 14 ''Segment Reporting''. IFRS 8 requires an entity to report on the financial performance of its operating segments, based on the information used internally for the purpose of evaluating segment performance and deciding resources allocation to operating segments. Such information may be different from what is used for preparing the income statement and balance sheet. IFRS 8 therefore requires explanations of the basis on how the segment information is prepared and reconciled to the income statement and balance sheet.

IFRIC interpretation 8 is required to be applied for annual periods beginning on or after 1 May 2006. It requires IFRS 2 ''Share-based Payment'' to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.

IFRIC interpretation 9 becomes effective for annual periods beginning on or after 1 June 2006. This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

IFRIC interpretation 10 shall be applied for annual periods beginning on or after 1 November 2006. It clarifies the prohibitions on reversal of impairment losses recognised in the previous interim period in respect of available-for-sale equity instruments, unquoted equity instruments not carried at fair value, and goodwill.

IFRIC interpretation 11 shall be applied for annual periods beginning on or after 1 March 2007. It provides guidance on distinguishing between equity-settled transactions and cash-settled transactions, and the uses of share-based payment arrangement that involves two or more entities within a group.

(In RMB millions, unless otherwise stated)

The Group is in the process of making an assessment of the impact of these new and revised IFRSs and interpretations upon initial application. It is expected that the adoption of the IAS 1 Amendment, IFRS 7 and IFRS 8 may result in new or amended disclosures and presentation. Other than the above, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

5. NET INTEREST INCOME

	2006	2005
Interest income on:		
Loans and advances to customers	187,623	175,285
Due from central banks	10,080	8,967
Due from banks and other financial institutions	8,355	4,470
Investment securities	66,883	51,480
	272,941	240,202
Interest expense on:		
Due to customers	(100,666)	(80,753)
Due to a central bank	—	(44)
Due to banks and other financial institutions	(7,898)	(5,312)
Debt issued	(1,259)	(490)
	(109,823)	(86,599)
Net interest income	163,118	153,603

Included in interest income from loans and advances to customers for the year is an amount of RMB1,890 million (2005: RMB8,349 million) with respect to the accreted interest on impaired loans (note 19).

6. FEE AND COMMISSION INCOME

	2006	2005
Renminbi settlement and clearing business	4,656	2,824
Wealth management services	3,280	1,929
Bank card business	3,228	2,346
Investment banking business	3,099	2,018
Agency services	1,254	1,081
Foreign currency intermediary business	1,006	879
E-banking business	693	421
Guarantee and commitment business	433	261
Custody services	341	263
Others	539	354
	18,529	12,376

(In RMB millions, unless otherwise stated)

7. OTHER OPERATING INCOME, NET

	2006	2005
Dividend income from unlisted investments	28	2
Gain/(loss) from foreign exchange and foreign exchange products, net	(1,329)	2,255
Gain on disposal of available-for-sale securities, net	113	384
Gain/(loss) on trading securities, net	(71)	27
Gain/(loss) on financial assets and liabilities designated at fair value through profit or loss, net	(404)	637
Gain on derivatives and other instruments, net	1,038	266
Gain on disposal of property and equipment and other assets, net	328	626
Sundry bank charge income	917	1,309
Others	1,556	1,965
	2,176	7,471

8. OPERATING EXPENSES

	2006	2005
Staff costs:		
Salaries and bonuses	22,246	18,975
Contributions to defined contribution schemes (i)	3,591	2,413
Other staff benefits	8,923	6,602
	34,760	27,990
Supplementary retirement benefits (note 29(c))	389	4,770
Premises and equipment expenses:		
Depreciation	9,697	9,852
Minimum lease payments under operating leases in respect of land and buildings	1,836	1,895
Repairs and maintenance charges	1,513	1,256
Utility expenses	1,448	1,406
	14,494	14,409
Amortisation	1,031	712
Other administrative expenses (ii)	11,271	10,484
Business tax and surcharges	11,419	9,419
Expenses in relation to the special government bond (note 20(a)(ii))	—	5,610
Others	4,033	8,191
	77,397	81,585

(i) Contributions to defined contribution schemes mainly include contributions to the state pension and the Bank's Annuity Plan. During the year and as at the balance sheet date, the Group's forfeited contributions available to reduce its contributions to the pension schemes in future years were not material.

(ii) Included in other administrative expenses is auditors' remuneration of RMB186 million for the year (2005: RMB49 million).

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Details of the directors' and supervisors' remuneration for the year, as disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Group	
	2006 RMB'000	2005 RMB'000
Fees	1,528	365
Other emoluments:		
Salaries, allowances and benefits in kind	2,386	329
Discretionary bonuses	3,910	183
Contributions to defined contribution schemes	978	196
	8,802	1,073

The emoluments of the Bank's directors and supervisors for the year are as follows:

	2006					2005
	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to defined contribution schemes RMB'000	Total RMB'000	Total RMB'000
Executive directors						
Mr. JIANG Jianqing	—	458	665	177	1,300	188
Mr. YANG Kaisheng	—	439	643	168	1,250	116
Mr. ZHANG Furong	—	406	529	145	1,080	90
Mr. NIU Ximing	—	400	545	144	1,089	91
Non-executive directors						
Mr. FU Zhongjun	—	—	—	—	—	—
Mr. KANG Xuejun	—	—	—	—	—	—
Mr. SONG Zhigang	—	—	—	—	—	—
Mr. WANG Wenyan	—	—	—	—	—	—
Ms. ZHAO Haiying	—	—	—	—	—	—
Mr. ZHONG Jian'an	—	—	—	—	—	—
Mr. Christopher A. COLE	—	—	—	—	—	—
Independent non-executive directors						
Mr. LEUNG Kam Chung, Antony	375	—	—	—	375	90
Mr. John L. THORNTON	325	—	—	—	325	78
Mr. QIAN Yingyi	335	—	—	—	335	78
Supervisors						
Mr. WANG Weiqiang	—	419	603	158	1,180	134
Ms. WANG Chixi	—	132	472	96	700	88
Mr. WANG Daocheng	250	—	—	—	250	62
Mr. MIAO Gengshu	230	—	—	—	230	58
Mr. ZHANG Wei	13	132	453	90	688	—
	1,528	2,386	3,910	978	8,802	1,073

The non-executive directors of the Bank received emoluments from the Bank's shareholders or its affiliates in respect of their services during the year.

The Bank was incorporated on 28 October 2005 and first appointed directors and supervisors on the same day. Accordingly, prior to that date, there were no directors' and supervisors' emoluments.

One of the Bank's executive directors, who is also a director of a subsidiary of the Bank, waived emoluments amounting to RMB170,000 for the year ended 31 December 2006 (2005: RMB176,953), which were related to discretionary bonuses for employees who contribute to the success of operations of the Bank's subsidiary. Therefore, those emoluments were not included in the directors' emoluments disclosed above. Save as above, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year ended 31 December 2006.

During the year, no emoluments were paid by the Group to any of the persons who are directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group are employees of the Bank's overseas subsidiaries. Their emoluments were determined based on the prevailing market rates in the respective countries/regions where the subsidiaries are operating. None of them are directors, supervisors or key management personnel of the Bank whose emoluments are disclosed in note 9 or 38(e) to the financial statements. Details of the emoluments in respect of the five highest paid individuals are as follows:

	Group	
	2006 RMB'000	2005 RMB'000
Salaries, allowances and benefits in kind	15,565	13,695
Discretionary bonuses	3,700	3,399
Contributions to defined contribution schemes	1,161	972
	20,426	18,066

The number of these individuals whose emoluments fell within the following bands is set out below.

	2006	2005
RMB2,500,001 to RMB3,000,000	—	2
RMB3,000,001 to RMB3,500,000	1	—
RMB3,500,001 to RMB4,000,000	2	1
RMB4,000,001 to RMB4,500,000	—	2
RMB4,500,001 to RMB5,000,000	1	—
RMB5,000,001 to RMB5,500,000	1	—
	5	5

During the year, no emoluments were paid by the Group to any of these non-director and non-supervisor individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2005: Nil).

(In RMB millions, unless otherwise stated)

11. PROVISIONS FOR IMPAIRMENT LOSSES ON ASSETS OTHER THAN LOANS AND ADVANCES TO CUSTOMERS

	2006	2005
Charge/(reversal) of provision for impairment losses on:		
Due from banks and other financial institutions	(36)	22
Investment securities	425	13
Property and equipment	608	289
Repossessed and other assets	1,178	101
	2,175	425

12. INCOME TAX EXPENSE

PRC income tax has been provided at the statutory rate of 33% (2005: 33%) in accordance with the relevant tax laws in Mainland China during the year. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries/regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2006	2005
Current income tax expense:		
PRC		
— Mainland China	23,010	14,563
— Hong Kong and Macau	436	220
Overseas	73	53
	23,519	14,836
Overprovision in prior years	(1,359)	—
	22,160	14,836
Deferred income tax expense	25	10,171
Total income tax expense for the year	22,185	25,007

(In RMB millions, unless otherwise stated)

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

	2006	2005
Profit before tax	72,065	63,026
Tax at the PRC statutory income tax rate	23,781	20,799
Non-deductible expenses		
Staff costs	—	5,687
Write-offs	3,792	3,506
Others	1,009	745
	4,801	9,938
Non-taxable income		
Income arising from bonds exempted from income tax	(3,746)	(5,477)
Others	(1,292)	(253)
	(5,038)	(5,730)
Overprovision in prior years	(1,359)	—
Tax expense at the Group's effective income tax rate	22,185	25,007

The Bank has obtained approval from the Ministry of Finance (the ''MOF'') and the State Administration of Taxation of the PRC (the ''SAT'') of the deduction of its staff costs based on the approved amount by the MOF and the SAT, when computing the Bank's taxable income for the year. Whereas in the past, standard rates for tax deductible staff costs were adopted.

Deferred tax debited/(credited) to equity during the year is as follows:

	Group		Bank	
	2006	2005	2006	2005
Relating to revaluation of available-for-sale investments	6	52	(122)	52

(In RMB millions, unless otherwise stated)

Deferred income tax expense relates to the following origination and reversal of temporary differences:

	Balance sheets				Income statement	
	Group		Bank		Group	
	2006	2005	2006	2005	2006	2005
Provisions for impairment losses on loans and advances and other assets	1,481	928	1,481	928	(553)	4,278
Provision for overdue interest receivable	—	—	—	—	—	954
Provision for housing reform losses	—	—	—	—	—	2,548
Amortisation and interest recognition for short term debt securities	—	(541)	—	(541)	(541)	(486)
Revaluation of available-for-sale investments	(1,007)	(1,001)	(879)	(1,001)	—	—
Changes in fair value of financial instruments at fair value through profit or loss	(1,776)	(1,254)	(1,776)	(1,254)	522	1,649
Others	(147)	450	(153)	450	597	1,228
Net deferred income tax liabilities	(1,449)	(1,418)	(1,327)	(1,418)		
Deferred income tax expense					25	10,171

13. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK

The consolidated profit attributable to equity holders of the Bank for the year ended 31 December 2006 includes a profit of RMB49,185 million (2005: RMB37,004 million) which has been dealt with in the financial statements of the Bank (note 31).

14. DIVIDENDS

	2006	2005
Interim	18,593	—
Special	10,146	—
Proposed final	5,344	3,537
	34,083	3,537

The proposed final dividend of approximately RMB0.014 per share amounting to RMB3,537 million in total for the year ended 31 December 2005 was approved in a meeting of the Bank's shareholders held on 28 April 2006.

Pursuant to the resolutions passed in the extraordinary general meetings of the Bank's shareholders held on 31 July 2006 and 22 September 2006, respectively, the following dividend distributions and policies were approved:

(i) in respect of the six months ended 30 June 2006, a dividend was distributed to the then existing shareholders in an aggregate amount of RMB18,593 million; and

(ii) in respect of the period from 1 July 2006 to the date immediately preceding the completion of the Bank's H-share offerings on the SEHK or the A-share offering on the SSE, whichever is earlier (the ''Special Dividend Period''), a dividend would be declared to the then existing shareholders, in an amount that is based on the distributable profits (after appropriations to the statutory surplus reserve and general reserve) of the Bank for the Special Dividend Period, as determined through a special audit of the Bank's financial statements prepared under the generally accepted accounting principles in the PRC or IFRSs, whichever is lower (the ''Special Dividend''). The Special Dividend thus determined amounted to RMB10,146 million (approximately RMB0.035 per share) and has been accrued in the financial statements for the year ended 31 December 2006.

The Board of Directors' meeting was held on 3 April 2007, and a final dividend of approximately RMB5,344 million, equivalent to RMB0.016 per share, was proposed, which is subject to the approval of the Bank's shareholders at the forthcoming annual general meeting. The dividend was not recognised as a liability as at 31 December 2006.

15. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK

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

	2006	2005
Earnings:		
Profit for the year attributable to equity holders of the Bank	49,263	37,555
Shares:		
Weighted average number of shares in issue or deemed to be in issue (million)	280,177	248,000
Earnings per share (RMB yuan)	0.18	0.15

Basic earnings per share for the year ended 31 December 2006 is computed based on the profit for the year attributable to equity holders of the Bank, and the weighted average number of shares in issue during the year.

On 28 October 2005, with the approval of the State Council of the PRC, ICBC was restructured and incorporated as a joint-stock limited company with a registered capital of RMB248,000 million divided into 248,000 million shares with a par value of RMB1 each. Basic earnings per share for the year ended 31 December 2005 has been computed by dividing the profit for the year attributable to equity holders of the Bank by 248,000 million shares as if these shares had been in issue since 1 January 2005.

There was no difference between the basic and diluted earnings per share as there were no dilutive events existed during the years ended 31 December 2005 and 2006.

(In RMB millions, unless otherwise stated)

16. CASH AND BALANCES WITH CENTRAL BANKS

	Group		Bank	
	2006	2005	2006	2005
Cash on hand	31,446	30,085	31,213	29,905
Balances with central banks other than restricted deposits	74,704	69,650	74,532	69,530
Unrestricted cash and balances with central banks	106,150	99,735	105,745	99,435
Mandatory reserve deposits with central banks	547,802	414,924	547,795	414,923
Other restricted deposits with central banks	49,705	39,214	49,705	39,214
Restricted balances with central banks	597,507	454,138	597,500	454,137
	703,657	553,873	703,245	553,572

The Group is required to place mandatory reserve deposits and other restricted deposits with the PBOC and certain central banks of overseas countries or regions where it has operations. Mandatory reserve deposits with central banks and other restricted deposits are not available for use in the Group's daily operations.

17. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2006	2005	2006	2005
Nostro accounts:				
Banks and other financial institutions operating in Mainland China	6,227	5,891	5,789	5,886
Banks operating outside Mainland China	9,441	10,568	8,424	10,237
	15,668	16,459	14,213	16,123
Allowance for impairment losses	(31)	(28)	(31)	(28)
	15,637	16,431	14,182	16,095
Placements with banks and other financial institutions:				
Banks operating in Mainland China	21,481	8,842	20,349	8,802
Other financial institutions operating in Mainland China	2,778	1,828	2,778	1,828
Banks operating outside Mainland China	166,755	105,246	132,290	103,386
	191,014	115,916	155,417	114,016
Allowance for impairment losses	(145)	(185)	(145)	(185)
	190,869	115,731	155,272	113,831
	206,506	132,162	169,454	129,926

Included in nostro accounts and placements with banks and other financial institutions as at 31 December 2006 are balances with original maturity of three months or less in the amount of RMB7,547 million (2005: RMB8,095 million) and RMB151,372 million (2005: RMB88,080 million), respectively, which have been included in cash and cash equivalents in the consolidated cash flow statement (note 32(a)).

(In RMB millions, unless otherwise stated)

18. REVERSE REPURCHASE AGREEMENTS

	Group and Bank	
	2006	2005
Analysed by counterparty:		
Banks	13,779	76,804
Other financial institutions	25,439	12,431
	39,218	89,235
Analysed by collateral:		
Securities	6,418	82,164
Bills	9,989	5,994
Loans	22,811	1,077
	39,218	89,235

Under certain reverse repurchase agreements, the Group received collaterals that are permitted to be sold or repledged in the absence of default by the owners of the collaterals. The fair value of the collaterals received on such terms as at 31 December 2006 amounted to RMB1,989 million (2005: RMB565 million).

As at 31 December 2006, included in reverse repurchase agreements are balances with original maturity of three months or less in the amount of RMB10,291 million (2005: RMB81,302 million), which have been included in cash and cash equivalents in the consolidated cash flow statement (note 32(a)).

19. LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
	2006	2005	2006	2005
Corporate loans	2,630,916	2,369,411	2,562,708	2,306,434
Personal loans	587,893	527,361	576,155	515,113
Discounted bills	412,362	392,781	412,313	392,717
	3,631,171	3,289,553	3,551,176	3,214,264
Allowance for impairment losses	(97,193)	(83,692)	(96,744)	(83,168)
	3,533,978	3,205,861	3,454,432	3,131,096

(In RMB millions, unless otherwise stated)

The composition of corporate loans by legal form of borrower is as follows:

	Group		Bank	
	2006	2005	2006	2005
State-wholly-owned enterprises (i)	648,883	595,685	648,883	595,685
State-controlled enterprises (i)	672,586	633,459	672,586	633,459
State-invested enterprises (i)	73,943	68,654	73,943	68,654
Joint-stock enterprises	348,304	289,616	348,304	289,616
Private enterprises	354,173	272,538	354,173	272,538
Foreign invested and foreign joint venture enterprises	257,437	229,133	257,437	229,133
Others (ii)	275,590	280,326	207,382	217,349
Total corporate loans	2,630,916	2,369,411	2,562,708	2,306,434

(i) Included in identified impaired loans and advances of the Group and of the Bank are amounts of RMB52,745 million (2005: RMB72,045 million) relating to the advances to state-owned enterprises including state-wholly-owned enterprises, state-controlled enterprises and state-invested enterprises

(ii) The balance included corporate loans granted to borrowers located outside Mainland China.

Movements of allowance for impairment losses during the year are as follows:

	Group		Bank	
	2006	2005	2006	2005
At beginning of the year	83,692	598,557	83,168	597,646
Charge for the year	30,014	26,589	29,892	26,809
Accreted interest on impaired loans	(1,890)	(8,349)	(1,880)	(8,339)
Write-offs	(11,144)	(27,547)	(10,957)	(27,390)
Transfer out (i)	(3,479)	(2,468)	(3,479)	(2,468)
Reversal arising from restructuring (ii)	—	(503,090)	—	(503,090)
At end of the year	97,193	83,692	96,744	83,168

(i) The balance of allowance transferred out included the allowance transferred to repossessed assets and investments held under debt equity swap arrangements.

(ii) Upon the disposal of impaired loans and advances during the restructuring of the Bank, the allowance for impairment losses amounting to RMB503,090 million previously made against these impaired loans and advances was reversed and credited to the capital reserve during the year ended 31 December 2005 as a capital contribution.

(In RMB millions, unless otherwise stated)

	Group		Bank	
	2006	2005	2006	2005
Loans and advances for which allowance for impairment losses is:				
Individually assessed	128,447	143,506	127,538	142,587
Collectively assessed	3,502,724	3,146,047	3,423,638	3,071,677
	3,631,171	3,289,553	3,551,176	3,214,264
Allowance for impairment losses:				
Individually assessed	56,991	49,396	56,785	49,095
Collectively assessed	40,202	34,296	39,959	34,073
	97,193	83,692	96,744	83,168
Net loans and advances for which allowance for impairment losses is:				
Individually assessed	71,456	94,110	70,753	93,492
Collectively assessed	3,462,522	3,111,751	3,383,679	3,037,604
	3,533,978	3,205,861	3,454,432	3,131,096
Identified impaired loans and advances (i)	137,745	154,417	136,836	153,498
Percentage of impaired loans and advances	3.79%	4.69%	3.85%	4.78%

(i) Impaired loans and advances are defined as those loans and advances having objective evidence of impairment as a result of one or more events that occur after initial recognition and that event has an impact on the estimated future cash flows of loans and advances that can be reliably estimated. These loans and advances include corporate loans and personal loans which are graded as substandard, doubtful or loss.

The composition of individually assessed allowance for impairment losses of corporate loans by legal form of borrower is as follows:

	Group		Bank	
	2006	2005	2006	2005
State-wholly-owned enterprises	13,955	17,072	13,955	17,072
State-controlled enterprises	10,060	6,465	10,060	6,465
State-invested enterprises	3,387	2,333	3,387	2,333
Joint-stock enterprises	7,520	7,333	7,520	7,333
Private enterprises	9,841	6,483	9,841	6,483
Foreign invested and foreign joint venture enterprises	5,648	3,466	5,648	3,466
Others	6,580	6,244	6,374	5,943
Total individually assessed allowance for impairment losses	56,991	49,396	56,785	49,095

(In RMB millions, unless otherwise stated)

20. INVESTMENT SECURITIES

	Notes	Group 2006	Group 2005	Bank 2006	Bank 2005
Receivables	(a)	1,106,163	1,074,461	1,106,163	1,074,461
Held-to-maturity debt securities	(b)	1,228,937	882,704	1,236,211	887,677
Available-for-sale investments	(c)	504,542	330,183	492,639	319,111
Investments at fair value through profit or loss	(d)	21,156	18,341	19,388	16,582
		2,860,798	2,305,689	2,854,401	2,297,831

(a) Receivables

Receivables are unlisted and stated at amortised cost and comprise the following:

	Group and Bank 2006	Group and Bank 2005
Huarong bonds (i)	312,996	312,996
Special government bond (ii)	85,000	85,000
MOF receivable (iii)	226,378	246,000
Special PBOC bills (iv)	434,790	430,465
Policy bank bonds (v)	46,999	—
	1,106,163	1,074,461

Notes:

(i) Huarong bonds are a series of long term bonds bilaterally issued to the Bank by China Huarong Asset Management Corporation ("Huarong") in 2000 and 2001, with an aggregate amount of RMB312,996 million. The funds raised were used to purchase non-performing loans of ICBC. The bonds are non-transferable, have a tenure of 10 years and bear a fixed interest rate of 2.25% per annum. Should Huarong be unable to make full payment of the bond interest, the MOF will provide funding in support of the payment.

(ii) The special government bond represents a non-negotiable bond with a nominal value of RMB85,000 million issued by the MOF to ICBC in 1998. The bond will mature in 2028 and bore interest at a fixed rate of 7.2% per annum originally. ICBC was required to pay an amount to the Government that equals to the interest income arising from the bond on an annual basis. Such interest income and expense were offset and no cash settlement was involved. With effect from 1 December 2005, the interest rate of the bond was revised to a fixed rate of 2.25% per annum, and the aforesaid expenses ceased to be required accordingly.

(iii) MOF receivable represents the receivable arising from the disposal of certain impaired assets to Huarong in 2005. The amount is repayable by 2010 and bears interest at a fixed rate of 3% per annum. Repayment of principal from the MOF during the year amounted to RMB19,622 million.

(iv) Special PBOC bills consist of:

- a non-transferable bill with a nominal value of RMB430,465 million issued by the PBOC in June 2005, which will mature in June 2010 and bears a fixed interest rate of 1.89% per annum. The PBOC has the right to early redeem the bill prior to the maturity date; and

- a non-transferable bill with a nominal value of RMB4,325 million issued by the PBOC in June 2006 for settlement of the amounts due from Huarong. The bill will mature in June 2011 and bears a fixed interest rate of 1.89% per annum. The PBOC has the right to early redeem the bill prior to the maturity date.

(In RMB millions, unless otherwise stated)

(v) Policy bank bonds

The balance represents bonds acquired with fixed or determinable payments that are not quoted in an active market.

(b) Held-to-maturity debt securities

Held-to-maturity debt securities are stated at amortised cost and comprise the following:

	Group		Bank	
	2006	2005	2006	2005
Governments and central banks	847,186	592,134	846,985	591,942
Policy banks	308,649	246,306	308,649	246,306
Public sector entities	18,663	5,223	18,482	4,959
Banks and other financial institutions	42,675	29,361	51,012	35,714
Corporate entities	11,803	9,917	11,122	8,993
	1,228,976	882,941	1,236,250	887,914
Allowance for impairment losses	(39)	(237)	(39)	(237)
	1,228,937	882,704	1,236,211	887,677

	Group		Bank	
	2006	2005	2006	2005
Analysed into:				
Listed in Hong Kong	496	1,560	496	1,404
Listed outside Hong Kong	146,764	88,082	146,060	87,062
Unlisted	1,081,677	793,062	1,089,655	799,211
	1,228,937	882,704	1,236,211	887,677
Market value of listed securities	148,354	91,044	147,648	90,168

(In RMB millions, unless otherwise stated)

(c) Available-for-sale investments

Available-for-sale investments comprise the following:

	Group		Bank	
	2006	2005	2006	2005
Debt securities, at fair value:				
Governments and central banks	260,383	212,055	259,976	212,055
Policy banks	70,084	55,765	70,061	55,765
Public sector entities	61,370	588	60,603	—
Banks and other financial institutions	77,031	45,922	72,879	42,560
Corporate entities	30,240	10,549	24,745	4,117
	499,108	324,879	488,264	314,497
Equity investments:				
At fair value	1,325	761	372	181
At cost (i):				
Debt for equity swaps (ii)	4,236	4,236	4,236	4,236
Others	340	347	234	237
	5,901	5,344	4,842	4,654
Allowance for impairment losses of equity investments	(467)	(40)	(467)	(40)
	5,434	5,304	4,375	4,614
	504,542	330,183	492,639	319,111
Debt securities analysed into:				
Listed in Hong Kong	1,147	2,360	506	1,745
Listed outside Hong Kong	34,953	22,563	30,792	17,541
Unlisted	463,008	299,956	456,966	295,211
	499,108	324,879	488,264	314,497
Equity investments analysed into:				
Listed in Hong Kong	996	437	—	4
Listed outside Hong Kong	329	—	372	—
Unlisted	4,109	4,867	4,003	4,610
	5,434	5,304	4,375	4,614
Market value of listed securities:				
Debt securities	36,100	24,923	31,298	19,286
Equity investments	1,325	437	372	4
	37,425	25,360	31,670	19,290

(i) Certain available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any impairment losses.

(ii) Many state-owned banks obtained equity interests in certain enterprises in lieu of repayments of loans through debt for equity swap arrangements set by the Government in 1999. The Bank in fact retains the risks and rewards of ownership and rights to dispose of these equity interests. By their nature, such equity interests are treated as equity investments of the Group.

(In RMB millions, unless otherwise stated)

(d) Investments at fair value through profit or loss

Investments at fair value through profit or loss are stated at fair value and comprise the following:

	Group		Bank	
	2006	2005	2006	2005
Debt securities:				
Governments and central banks	2,424	11,467	2,215	11,246
Policy banks	2,379	4,279	2,379	4,279
Public sector entities	98	509	—	300
Banks and other financial institutions	908	1,259	423	757
Corporate entities	15,304	827	14,371	—
	21,113	18,341	19,388	16,582
Equity investments	43	—	—	—
	21,156	18,341	19,388	16,582
Debt securities analysed into:				
Listed in Hong Kong	310	90	234	—
Listed outside Hong Kong	927	1,379	173	370
Unlisted	19,876	16,872	18,981	16,212
	21,113	18,341	19,388	16,582
Equity investments analysed into:				
Listed in Hong Kong	43	—	—	—

At 31 December 2006, included in investments at fair value through profit or loss are debt securities amounting to RMB1,768 million (2005: RMB1,759 million) which are financial assets designated at fair value through profit or loss upon initial recognition.

21. INVESTMENTS IN SUBSIDIARIES

	Bank	
	2006	2005
Unlisted investments, at cost	1,611	1,463
Shares listed in Hong Kong, at cost	5,649	5,649
	7,260	7,112
Market value of the Bank's investments in a subsidiary whose shares are listed in Hong Kong	10,083	6,621

(In RMB millions, unless otherwise stated)

Particulars of the Bank's principal subsidiaries as at the balance sheet date are as follows:

Name	Percentage of equity interests directly attributable to the Bank 2006 %	2005 %	Nominal value of issued share/ paid-up capital	Place of incorporation/ registration and operations	Principal activities
Industrial and Commercial Bank of China (Asia) Limited (''ICBC (Asia)'')	59.72	59.72	HK$2,242.52 million	Hong Kong	Commercial banking
Industrial and Commercial International Capital Limited (''ICIC'')	100.00	100.00	HK$280 million	Hong Kong	Commercial banking
ICEA Finance Holdings Limited (''ICEA'')	75.00	75.00	US$20 million	British Virgin Islands and Hong Kong	Investment banking
ICBC (London) Limited (''ICBC (London)'')	100.00	100.00	US$100 million	London, United Kingdom	Commercial banking
JSC Industrial and Commercial Bank of China (''ICBC (Almaty)'')	100.00	100.00	US$10 million	Almaty, Kazakhstan	Commercial banking
ICBC Credit Suisse Asset Management Co., Ltd. (''ICBC Credit Suisse Asset Management'') (Note)	55.00	55.00	RMB200 million	Beijing, the PRC	Fund management
ICBC (Luxembourg) S.A. (''ICBC (Luxembourg) '')	100.00	N/A	US$18.50 million	Luxembourg	Commercial banking

Note: ICBC Credit Suisse Asset Management is registered as a sino-foreign equity joint venture enterprise under PRC Law.

The above table lists the principal subsidiaries of the Bank. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Included in the Bank's balance sheet are balances with subsidiaries as follows:

	2006	2005
Due from subsidiaries	13,174	22,286
Due to subsidiaries	(2,673)	(5,522)
Investments	11,524	9,677

The balances with subsidiaries included nostro accounts, placements with banks and other financial institutions, investment securities, other assets, money market takings, deposits from banks and other financial institutions and repurchase agreements. These balances are of similar terms with those maintained with other customers of the Bank.

(In RMB millions, unless otherwise stated)

22. INVESTMENTS IN ASSOCIATES

	Group		Bank	
	2006	2005	2006	2005
Share of net assets	127	120	—	—
Unlisted investment, at cost	—	—	74	74
	127	120	74	74

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2006	2005
Assets	2,558	1,920
Liabilities	(1,976)	(1,373)
Net assets	582	547
Revenue	201	123
Profit for the year	60	25

Particulars of the Group's associates at the balance sheet date are as follows:

Name	Percentage of equity interest attributable to the Group 2006 %	Percentage of equity interest attributable to the Group 2005 %	Place of incorporation/ registration	Principal activities
Directly held by the Bank:				
Qingdao International Bank	20.83	20.83	Qingdao, the PRC	Commercial banking
Indirectly held by the Bank:				
China Ping An Insurance (Hong Kong) Company Limited (i)	14.93	14.93	Hong Kong	General insurance

(i) The shareholding of a 25% equity interest in this associate is held through a non-wholly-owned subsidiary, ICBC (Asia). The percentage of ownership interest disclosed represents the effective percentage held by the Group.

(In RMB millions, unless otherwise stated)

23. PROPERTY AND EQUIPMENT

Group

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment and computers	Motor vehicles	Total
Cost or valuation:						
At 1 January 2005	79,800	2,744	1,459	29,815	5,871	119,689
Additions	2,784	2,067	861	3,008	152	8,872
Transfers	2,021	(1,955)	1	489	12	568
Revaluation surplus	19,677	61	—	2,131	828	22,697
Elimination of accumulated depreciation and impairment losses on valuation	(19,000)	(67)	—	(18,529)	(4,271)	(41,867)
Disposals	(6,998)	—	(788)	(2,494)	(685)	(10,965)
At 31 December 2005 and 1 January 2006	78,284	2,850	1,533	14,420	1,907	98,994
Additions	927	2,022	332	2,850	80	6,211
Transfers	1,188	(1,964)	50	626	13	(87)
Disposals	(1,161)	—	(443)	(270)	(116)	(1,990)
At 31 December 2006	79,238	2,908	1,472	17,626	1,884	103,128
Accumulated depreciation and impairment:						
At 1 January 2005	20,542	70	847	18,129	4,522	44,110
Depreciation charge for the year	3,455	—	399	5,211	787	9,852
Impairment losses	107	182	—	—	—	289
Elimination of accumulated depreciation and impairment losses on valuation	(19,000)	(67)	—	(18,529)	(4,271)	(41,867)
Disposals	(3,087)	—	(494)	(2,259)	(534)	(6,374)
At 31 December 2005 and 1 January 2006	2,017	185	752	2,552	504	6,010
Depreciation charge for the year	3,438	—	285	5,310	664	9,697
Impairment losses	431	160	—	11	6	608
Disposals	(124)	—	(431)	(156)	(85)	(796)
At 31 December 2006	5,762	345	606	7,717	1,089	15,519
Net carrying amount:						
At 31 December 2005	76,267	2,665	781	11,868	1,403	92,984
At 31 December 2006	73,476	2,563	866	9,909	795	87,609
Analysis of cost or valuation:						
At 31 December 2005						
At cost	2,668	1,654	1,533	2,740	124	8,719
At 30 June 2005 valuation	75,616	1,196	—	11,680	1,783	90,275
	78,284	2,850	1,533	14,420	1,907	98,994
At 31 December 2006						
At cost	4,783	2,908	1,472	6,216	217	15,596
At 30 June 2005 valuation	74,455	—	—	11,410	1,667	87,532
	79,238	2,908	1,472	17,626	1,884	103,128

(In RMB millions, unless otherwise stated)

Bank

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment and computers	Motor vehicles	Total
Cost or valuation:						
At 1 January 2005	79,399	2,744	1,336	29,514	5,862	118,855
Additions	2,783	2,067	814	2,970	150	8,784
Transfers	2,021	(1,955)	1	489	12	568
Revaluation surplus	19,677	61	—	2,131	828	22,697
Elimination of accumulated depreciation and impairment losses on valuation	(19,000)	(67)	—	(18,529)	(4,271)	(41,867)
Disposals	(6,870)	—	(774)	(2,493)	(685)	(10,822)
At 31 December 2005 and 1 January 2006	78,010	2,850	1,377	14,082	1,896	98,215
Additions	927	2,022	280	2,818	74	6,121
Transfers	1,188	(1,964)	50	626	13	(87)
Disposals	(1,127)	—	(421)	(252)	(116)	(1,916)
At 31 December 2006	78,998	2,908	1,286	17,274	1,867	102,333
Accumulated depreciation and impairment:						
At 1 January 2005	20,497	70	754	17,893	4,517	43,731
Depreciation charge for the year	3,450	—	386	5,179	786	9,801
Impairment losses	107	182	—	—	—	289
Elimination of accumulated depreciation and impairment losses on valuation	(19,000)	(67)	—	(18,529)	(4,271)	(41,867)
Disposals	(3,086)	—	(482)	(2,252)	(534)	(6,354)
At 31 December 2005 and 1 January 2006	1,968	185	658	2,291	498	5,600
Depreciation charge for the year	3,430	—	266	5,294	658	9,648
Impairment losses	431	160	—	11	6	608
Disposals	(122)	—	(415)	(152)	(85)	(774)
At 31 December 2006	5,707	345	509	7,444	1,077	15,082
Net carrying amount:						
At 31 December 2005	76,042	2,665	719	11,791	1,398	92,615
At 31 December 2006	73,291	2,563	777	9,830	790	87,251
Analysis of cost or valuation:						
At 31 December 2005						
At cost	2,394	1,654	1,377	2,402	113	7,940
At 30 June 2005 valuation	75,616	1,196	—	11,680	1,783	90,275
	78,010	2,850	1,377	14,082	1,896	98,215
At 31 December 2006						
At cost	4,543	2,908	1,286	5,864	200	14,801
At 30 June 2005 valuation	74,455	—	—	11,410	1,667	87,532
	78,998	2,908	1,286	17,274	1,867	102,333

(In RMB millions, unless otherwise stated)

The Group's and the Bank's properties and buildings were held under the following lease terms:

	Group		Bank	
	2006	2005	2006	2005
Long term leases (over 50 years)				
Held in the PRC (other than Hong Kong)	7,070	6,346	7,070	6,341
Held in Hong Kong	167	189	—	—
Held in overseas	50	48	49	47
	7,287	6,583	7,119	6,388
Medium term leases (10 to 50 years)				
Held in the PRC (other than Hong Kong)	64,001	67,210	64,001	67,199
Held in Hong Kong	280	285	263	267
	64,281	67,495	64,264	67,466
Short term leases (less than 10 years)				
Held in the PRC (other than Hong Kong)	1,908	2,189	1,908	2,188
	73,476	76,267	73,291	76,042

In accordance with the relevant rules and regulations, subsequent to the transformation of ICBC into a joint-stock company, the titleship of properties and buildings previously held under the name of ICBC is to be transferred to the Bank. The aforesaid re-registration process for certain properties and buildings has not yet been completed.

Had the property and equipment (other than leasehold improvements) been measured using the cost method, the carrying amounts would have been as follows:

31 December 2006	Cost	Accumulated depreciation and impairment	Net carrying amount
Group			
Properties and buildings	78,986	(24,191)	54,795
Construction in progress	2,908	(345)	2,563
Office equipment and computers	34,064	(24,373)	9,691
Motor vehicles	5,377	(4,362)	1,015
	121,335	(53,271)	68,064

31 December 2006	Cost	Accumulated depreciation and impairment	Net carrying amount
Bank			
Properties and buildings	78,746	(24,135)	54,611
Construction in progress	2,908	(345)	2,563
Office equipment and computers	33,711	(24,100)	9,611
Motor vehicles	5,360	(4,350)	1,010
	120,725	(52,930)	67,795

(In RMB millions, unless otherwise stated)

31 December 2005	Cost	Accumulated depreciation and impairment	Net carrying amount
Group			
Properties and buildings	77,607	(20,957)	56,650
Construction in progress	2,856	(252)	2,604
Office equipment and computers	30,818	(20,409)	10,409
Motor vehicles	5,350	(4,416)	934
	116,631	(46,034)	70,597

31 December 2005	Cost	Accumulated depreciation and impairment	Net carrying amount
Bank			
Properties and buildings	77,333	(20,908)	56,425
Construction in progress	2,856	(252)	2,604
Office equipment and computers	30,480	(20,148)	10,332
Motor vehicles	5,339	(4,410)	929
	116,008	(45,718)	70,290

No revaluation was performed as at 31 December 2006 as the directors are of the view that the property and equipment of the Group have not experienced any significant and volatile movements in fair value and their carrying amounts did not differ materially from those which would have been determined using the fair value at the balance sheet date.

24. OTHER ASSETS

	Group		Bank	
	2006	2005	2006	2005
Interest receivable	26,109	24,993	25,225	24,295
Repossessed assets (i)	4,563	6,395	4,563	6,395
Positive fair value of derivative financial instruments (note 33)	10,539	9,957	10,364	9,154
Land use rights (ii)	19,159	19,657	19,159	19,657
Settlement accounts	3,855	2,817	2,726	2,329
Others	12,633	12,388	11,276	11,534
	76,858	76,207	73,313	73,364

(In RMB millions, unless otherwise stated)

(i) Repossessed assets are analysed as follows:

	Group and Bank	
	2006	2005
Cost	6,897	8,942
Allowance for impairment losses	(2,334)	(2,547)
	4,563	6,395

(ii) Land use rights represent the amount of land use rights injected by the Government in 2005 through capital contribution less accumulated amortisation.

25. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2006	2005	2006	2005
Money market takings	32,824	31,360	30,475	29,709
Deposits	367,494	201,550	368,098	201,725
	400,318	232,910	398,573	231,434
Analysed by legal form of counterparty:				
Policy banks	209	503	209	503
State-owned banks	3,615	12,493	3,458	10,666
Joint-stock banks	16,930	12,428	16,369	10,699
Other financial institutions	329,565	199,162	326,760	201,451
Others	49,999	8,324	51,777	8,115
	400,318	232,910	398,573	231,434

26. REPURCHASE AGREEMENTS

	Group		Bank	
	2006	2005	2006	2005
Analysed by counterparty:				
Banks	12,992	26,913	13,501	27,721
Other financial institutions	35,618	5,388	35,618	5,388
	48,610	32,301	49,119	33,109
Analysed by collateral:				
Securities	47,182	28,556	47,182	28,556
Bills	493	790	493	790
Loans	935	2,955	1,444	3,763
	48,610	32,301	49,119	33,109

(In RMB millions, unless otherwise stated)

27. DUE TO CUSTOMERS

	Group		Bank	
	2006	2005	2006	2005
Demand deposits:				
Corporate customers	1,985,647	1,787,336	1,975,491	1,779,074
Personal customers	1,105,575	1,012,876	1,099,121	1,003,655
Others	93,686	77,944	93,686	77,941
Time deposits:				
Corporate customers	934,513	754,968	866,454	707,981
Personal customers	2,232,002	2,103,742	2,216,651	2,103,203
	6,351,423	5,736,866	6,251,403	5,671,854

At 31 December 2006, the Group's amounts due to customers included structured deposits amounting to RMB25,033 million (2005: RMB33,590 million) which are financial liabilities designated at fair value through profit or loss upon initial recognition. The differences between the fair value and the amount that the Group would be contractually required to pay at maturity to the holders of these financial liabilities amounted to RMB258 million (2005: RMB629 million). The amounts of changes in the fair value of the financial liabilities that are attributable to changes in credit risk are considered not significant during the years presented and cumulatively as at 31 December 2005 and 2006.

28. DEBT ISSUED

		Group		Bank	
	Notes	2006	2005	2006	2005
Notes payable	(a)	2,947	3,076	—	—
Subordinated bonds issued	(b)	35,000	35,000	35,000	35,000
		37,947	38,076	35,000	35,000

Notes:

(a) The notes were issued in September 2004 by ICBCA (C.I.) Limited, an indirectly-held subsidiary of the Bank, at a coupon rate of 4.125% per annum and maturing on 16 September 2009. The notes have been designated as liabilities at fair value through profit or loss upon initial recognition.

The differences between the fair value and the amount that the Group would be contractually required to pay upon maturity to the holders of these notes amounted to RMB114 million as at 31 December 2006 (2005: RMB128 million). The amounts of changes in the fair value of the financial liabilities that are attributable to changes in credit risk are considered not significant during the years presented and cumulatively as at 31 December 2005 and 2006.

(b) As approved by the PBOC and the CBRC, the Bank issued callable subordinated bonds of RMB35,000 million through open market bidding in 2005. These subordinated bonds included:

(i) 10-year fixed rate subordinated bonds in the amount of RMB13,000 million in aggregate with maturity due in 2015, bearing a coupon rate of 3.11% per annum. The Bank has the option to redeem all or part of the bonds at face value on 29 August 2010. If the Bank does not exercise this option, the annual coupon rate will increase by 3% thereafter;

(ii) 15-year fixed rate subordinated bonds in the amount of RMB13,000 million in aggregate with maturity due in 2020, bearing a coupon rate of 3.77% per annum. The Bank has the option to redeem all or part of the bonds at face value on 6 September 2015. If the Bank does not exercise this option, the annual coupon rate will increase by 3% thereafter; and

(In RMB millions, unless otherwise stated)

(iii) 10-year floating rate subordinated bonds in the amount of RMB9,000 million in aggregate with maturity due in 2015, bearing a coupon rate which is a specific base rate plus an interest margin of 1.05% per annum. Such specific base rate is determined based on the weighted average of the PRC inter-bank money market 7-day repo rates. The Bank has the option to redeem all or part of the bonds at face value on 14 September 2010. If the Bank does not exercise this option, the interest margin of the bonds will increase by 1% thereafter.

29. OTHER LIABILITIES

	Group		Bank	
	2006	2005	2006	2005
Interest payable	50,863	38,177	50,114	37,610
Supplementary retirement benefits	—	29,921	—	29,921
Settlement accounts	26,538	24,276	25,400	24,014
Salaries and welfare payables	6,677	5,126	6,525	5,049
Sundry tax payables	5,618	4,595	5,612	4,592
Bank drafts	4,856	4,026	4,811	3,989
Negative fair value of derivative financial instruments (note 33)	2,613	3,530	2,382	2,729
Payables for bonds purchased	25,870	2,346	25,870	2,346
Dividend payable	10,146	—	10,146	—
Payables to the MOF and Central SAFE Investments Limited (''Huijin'') (i)	24,448	8,028	24,448	8,028
Others	17,530	14,314	17,152	14,255
	175,159	134,339	172,460	132,533

(i) The balance as at 31 December 2005 arose from the restructuring of the Bank. The amount was capitalised as equity in 2006 (note 30(i) and (ii)).

The balance as at 31 December 2006 related to the sale of shares held by MOF and Huijin through the Bank's H-share offering, that remained payable (after deducting related share issue expenses) to them at year end (note 38).

Supplementary retirement benefits

The Group provided supplementary retirement benefits, which included supplementary pension and supplementary medical benefits, for its domestic retirees who retired before 30 June 2005. The amounts recognised in the balance sheet represented the present value of unfunded obligations. The Group's obligations in respect of the supplementary retirement benefits at 31 December 2005 were computed by an independent actuary, Towers, Perrin, Forster & Crosby, Inc., Hong Kong, whose actuaries are members of the Society of Actuaries of the United States of America, using the projected unit credit actuarial cost method. Actuarial gains or losses are recognised in the income statement when incurred.

During the year, the Group settled the supplementary retirement benefits with an equivalent amount of assets. Subsequent to the settlement, the related assets and liabilities were segregated into a fund (the ''Fund'') separately held and managed by ICBC Provident Fund Committee, which is designated to administer and manage the Fund and the payment of supplementary retirement benefits independently in the future. The Group has no further obligation on the supplementary retirement benefits.

(In RMB millions, unless otherwise stated)

The components of net benefit expense recognised in the income statement and the amounts recognised in the balance sheet are summarised below.

(a) Amount recognised at the balance sheet date:

	Group and Bank	
	2006	2005
Unfunded liabilities	—	29,921

(b) Movements of net benefits liabilities recognised in the balance sheet are as follows:

	Group and Bank	
	2006	2005
Net liabilities at beginning of the year	29,921	27,261
Benefit paid during the year	(662)	(2,110)
Net expense recognised in the income statement	389	4,770
Settlement of supplementary retirement benefits	(29,648)	—
Net liabilities at end of the year	—	29,921

(c) Supplementary retirement benefits recognised in the income statement:

	Group and Bank	
	2006	2005
Interest cost recognised during the year	505	1,245
Actuarial losses/(gains) recognised during the year	(116)	3,525
Supplementary retirement benefits recognised in the income statement (note 8)	389	4,770

(d) Principal actuarial assumptions

	Group and Bank	
	2006	2005
Discount rate	N/A	3.50%
Healthcare cost increase rate	N/A	8.00%
Expected annual future benefits increase for beneficiaries of deceased employees	N/A	4.50%
Average expected future lifetime of current retirees	N/A	15.4 years

Due to the settlement of the supplementary retirement benefits during the year, no actuarial valuation was performed at year end.

30. SHARE CAPITAL

Shares

	2006		2005	
	Number of shares (millions)	Nominal value	Number of shares (millions)	Nominal value
Registered, issued and fully paid:				
State-owned shares of RMB1 each	—	—	248,000	248,000
H-shares of RMB1 each	83,057	83,057	—	—
A-shares of RMB1 each	250,962	250,962	—	—
	334,019	334,019	248,000	248,000

A summary of the movements in the Bank's issued share capital during the year is as follows:

		Issued share capital (in millions share)				
	Notes	State-owned shares	Foreign legal person shares	H-shares	A-shares	Total
At 1 January 2006	(i)	248,000	—	—	—	248,000
Issue of new shares	(ii)	14,324	24,185	—	—	38,509
State-owned shares transferred to the National Council for Social Security Fund (the ''SSF'')	(iii)	(4,070)	—	4,070	—	—
H-share offering	(iv)	(8,140)	—	40,700	—	32,560
A-share offering	(v)	—	—	—	14,950	14,950
Conversion of shares	(vi)	(250,114)	(24,185)	38,287	236,012	—
At 31 December 2006		—	—	83,057	250,962	334,019

Notes:

(i) Prior to the restructuring of the Bank in 2005, the Government injected cash amounting US$15,000 million into ICBC in April 2005 as capital through Huijin, under the direction of the State Council. As such, ICBC's paid-up capital increased from RMB160,669 million as at 1 January 2005 to RMB284,817 million.

With the approval of the State Council, ICBC was restructured into a joint-stock limited company with a total registered capital of RMB248,000 million on 28 October 2005. The paid-up capital, reserves and accumulated losses of ICBC, after taking into account the surpluses arising from the asset and liability revaluation exercise, were converted into issued share capital of the joint-stock limited company upon the Bank's incorporation. An aggregate of 248,000 million promoters' shares at par value of RMB1 each were issued to the MOF and Huijin, with each holding 124,000 million shares. The excess of the then net asset value of ICBC in the amount of RMB256,028 million (represented by paid-up capital of RMB284,817 million and reserves of RMB628,727 million, net of accumulated losses of RMB657,516 million) over the issued share capital of RMB248,000 million, which amounted to RMB8,028 million, was accounted for as a payable to the MOF and was included under other liabilities as of 31 December 2005 (note 29).

(ii) In April 2006, The Goldman Sachs Group Inc. (''Goldman Sachs''), Dresdner Bank Luxembourg S.A. and American Express Company subscribed for 16,476 million shares, 6,433 million shares and 1,276 million shares (a total of 24,185 million shares) in the Bank for cash considerations of US$2,582 million, Euro825 million and US$200 million, respectively, which approximated to RMB30,438 million in aggregate.

In June 2006, the SSF subscribed for 14,324 million shares in the Bank for a consideration of RMB18,028 million, of which 7,945 million shares were paid by cash and the remaining 6,379 million shares were settled by capitalising a payable balance of RMB8,028 million of the Bank (note 29).

(iii) In accordance with relevant PRC regulations regarding the disposal of state-owned shares, the MOF, Huijin and the SSF transferred to the SSF, in proportion to their respective holdings in the Bank, such number of shares in aggregate equivalent to 10% of the total number of shares offered pursuant to the Bank's H-share offering. These shares were converted into H-shares on an one-for-one basis, as approved by the China Securities Regulatory Commission (''CSRC'') on 19 September 2006.

(iv) In connection with the H-share offering of the Bank during the year, 40,700 million H-shares (including 8,140 million shares, previously held by the MOF and Huijin, converted from state-owned shares) with a par value of RMB1 each were issued at a price of HK$3.07 per share.

(v) In connection with the A-share offering of the Bank during the year, 14,950 million new A-shares with a par value of RMB1 each were issued at a price of RMB3.12 per share.

(vi) Upon the completion of the initial public offerings in the SEHK and the SSE,

- the remaining state-owned shares held by the MOF and Huijin were registered as A-shares;
- the remaining state-owned shares held by the SSF were converted to H-shares on an one-for-one basis, as approved by the CSRC on 19 September 2006; and
- the unlisted foreign legal person shares held by Goldman Sachs, Dresdner Bank Luxembourg S.A. and American Express Company were converted into H-shares on an one-for-one basis.

Except for dividends for H-shares which are payable in HK$, all of the H-shares and A-shares rank pari passu with each other in respect of dividends.

Share appreciation rights plan

During the year, a share appreciation rights plan has been approved, which allows the share appreciation rights to be granted to eligible participants including directors, supervisors, senior management and other key personnel designated by the board of directors. The share appreciation rights will be granted and exercised based on the price of the Bank's H-shares and will be valid for ten years. As at the date of this report, no share appreciation right has been granted.

(In RMB millions, unless otherwise stated)

31. RESERVES

The movements in reserves and retained profits/(accumulated losses) of the Bank during the year are set out below.

	Reserves							
	Capital reserve	Surplus reserves	General reserve	Asset revaluation reserve	Investment revaluation reserve	Foreign currency translation reserve	Total	Retained profits/ (accumulated losses)
Balance as at 1 January 2005	(2,415)	14,818	—	—	1,927	266	14,596	(687,550)
Profit for the year	—	—	—	—	—	—	—	37,004
Net change in the fair value of available-for-sale investments	—	—	—	—	3,453	—	3,453	—
Reserve realised on disposal of available-for-sale investments	—	—	—	—	480	—	480	—
Foreign currency translation	—	—	—	—	—	(83)	(83)	—
Asset revaluation surplus arising from restructuring	—	—	—	22,697	—	—	22,697	—
Capital injection	19,906	—	—	—	—	—	19,906	—
Equity contribution arising from the disposal of impaired assets	567,558	—	—	—	—	—	567,558	—
Elimination of capital and reserves with accumulated losses and transfer of capital and reserves to share capital	(587,063)	(14,818)	—	(22,697)	(3,828)	(321)	(628,727)	657,516
Appropriation to surplus reserves	—	375	—	—	—	—	375	(375)
Appropriation to general reserve	—	—	1,700	—	—	—	1,700	(1,700)
Balance as at 31 December 2005 and 1 January 2006	(2,014)	375	1,700	—	2,032	(138)	1,955	4,895
Profit for the year	—	—	—	—	—	—	—	49,185
Net change in the fair value of available-for-sale investments	—	—	—	—	(268)	—	(268)	—
Reserve realised on disposal of available-for-sale investments	—	—	—	—	20	—	20	—
Foreign currency translation	—	—	—	—	—	27	27	—
Issue of shares	110,685	—	—	—	—	—	110,685	—
Share issue expenses	(3,652)	—	—	—	—	—	(3,652)	—
Dividend — 2005 final	—	—	—	—	—	—	—	(3,537)
Dividend — 2006 interim	—	—	—	—	—	—	—	(18,593)
Dividend — 2006 special	—	—	—	—	—	—	—	(10,146)
Appropriation to surplus reserves (note)	—	5,086	—	—	—	—	5,086	(5,086)
Appropriation to general reserve	—	—	11,019	—	—	—	11,019	(11,019)
Balance as at 31 December 2006	105,019	5,461	12,719	—	1,784	(111)	124,872	5,699

Note: Includes the appropriation made by overseas branches in the amount of RMB11 million.

(a) Capital reserve

Pursuant to the restructuring during the year ended 31 December 2005, the paid-up capital, reserves and accumulated losses of ICBC, as determined under the generally accepted accounting principles in the PRC, were converted into the Bank's issued share capital upon its incorporation. In the preparation of the Group's financial statements, the paid-up capital and all the then existing reserves and accumulated losses as determined under IFRSs were accordingly eliminated, with the resulting difference dealt with in the capital reserve. Increase in capital reserve during the year represented the premium of shares newly issued (including interest income generated from the subscription monies), after deducting related share issue expenses.

(b) Surplus reserves

Surplus reserves consist of statutory surplus reserve and discretionary surplus reserve.

(i) Statutory surplus reserve

The Bank is required to appropriate 10% of its profit after incorporating as a joint-stock limited company, determined under the generally accepted accounting principles in the PRC, to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of shareholders, statutory surplus reserve may be used to offset accumulated losses, if any, and may also be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital.

(ii) Discretionary surplus reserve

After making the appropriation to the statutory reserve, the Bank may also appropriate its profit to the discretionary surplus reserve upon approval of the shareholders in the general meetings. Subject to the approval of the shareholders, discretionary surplus reserve may be used to offset accumulated losses, if any, and may be converted into capital.

(c) Other reserves

The Bank is required to maintain a general reserve within equity, through the appropriation of profit, which should not be less than 1% of the year end balance of its risk assets. As allowed by the MOF, the reserve is to be appropriated over a period of not more than five years, beginning in 2005.

Asset revaluation reserve records the revaluation surplus of property and equipment.

Investment revaluation reserve records the fair value changes of available-for-sale investments.

Foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the subsidiaries and branches incorporated outside Mainland China.

(d) Distributable profit

The Bank's distributable profit is based on the retained profits of the Bank as determined under the generally accepted accounting principles in the PRC and IFRSs, whichever is lower. The amount that the Bank's subsidiaries can legally distribute by way of a dividend is determined by reference to their profits as reflected in their financial statements prepared in accordance with the accounting regulations and principles promulgated by local regulatory bodies of respective countries/regions. These profits may differ from those dealt with in these financial statements, which are prepared in accordance with IFRSs.

(In RMB millions, unless otherwise stated)

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Analysis of balances of cash and cash equivalents

	Notes	2006	2005
Cash on hand	16	31,446	30,085
Balances with central banks other than restricted deposits	16	74,704	69,650
Nostro accounts with banks and other financial institutions with original maturity of three months or less	17	7,547	8,095
Placements with banks and other financial institutions with original maturity of three months or less	17	151,372	88,080
Reverse repurchase agreements with original maturity of three months or less	18	10,291	81,302
Investments with original maturity of three months or less (i)		231,434	17,212
		506,794	294,424

(i) Investments included in cash and cash equivalents are analysed as follows:

	Notes	2006	2005
Available-for-sale debt securities	20(c)	499,108	324,879
Debt securities at fair value through profit or loss	20(d)	21,113	18,341
		520,221	343,220
Balances with original maturity over three months		(288,787)	(326,008)
		231,434	17,212

(b) Significant non-cash transactions

	2006	2005
Payable to MOF capitalised as capital	8,028	—
Disposal of loss category loans and other impaired assets	—	246,000
Disposal of doubtful category loans and receipt of special PBOC bills	—	430,465
Receipt of a special PBOC bill for settlement of amounts due from Huarong	4,325	—
Disposal of doubtful category loans for settlement of amount due to a central bank	—	23,537
Disposal of impaired loans and converted into other assets	3,562	—
Revaluation of property and equipment	—	22,697
Interest income and expense in relation to the special government bond	—	5,610
Capital injection in the form of land use rights	—	19,906

(In RMB millions, unless otherwise stated)

33. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

The Group and the Bank had derivative financial instruments at year end as follows:

Group

	31 December 2006						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward foreign exchange contracts	78,784	92,581	4,189	487	176,041	549	(671)
Currency option contracts purchased	3,631	6,067	94,882	—	104,580	8,717	(20)
	82,415	98,648	99,071	487	280,621	9,266	(691)
Interest rate contracts:							
Interest rate swap contracts	6,254	23,798	41,554	31,766	103,372	1,089	(1,735)
Cross-currency swap contracts	797	1,147	1,454	2,930	6,328	123	(127)
Forward rate agreements	3,045	2,952	19,959	7,028	32,984	56	(56)
Interest rate option contracts purchased/written	564	1,197	1,742	3,297	6,800	3	(3)
	10,660	29,094	64,709	45,021	149,484	1,271	(1,921)
Other derivative contracts	79	—	—	—	79	2	(1)
	93,154	127,742	163,780	45,508	430,184	10,539	(2,613)

(In RMB millions, unless otherwise stated)

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

	31 December 2006						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Interest rate contracts:							
Interest rate swap contracts	172	1,110	7,281	1,556	10,119	97	(258)
Cross-currency swap contracts	—	—	62	—	62	—	(17)
	172	1,110	7,343	1,556	10,181	97	(275)

Bank

	31 December 2006						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward foreign exchange contracts	63,316	89,736	4,079	487	157,618	513	(631)
Currency option contracts purchased	—	—	93,704	—	93,704	8,696	—
	63,316	89,736	97,783	487	251,322	9,209	(631)
Interest rate contracts:							
Interest rate swap contracts	5,722	20,041	34,234	29,201	89,198	979	(1,571)
Cross-currency swap contracts	797	1,147	1,050	2,915	5,909	120	(124)
Forward rate agreements	3,045	2,952	19,959	7,028	32,984	56	(56)
Interest rate option contracts purchased/written	—	—	45	3,148	3,193	—	—
	9,564	24,140	55,288	42,292	131,284	1,155	(1,751)
	72,880	113,876	153,071	42,779	382,606	10,364	(2,382)

(In RMB millions, unless otherwise stated)

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

	31 December 2006						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Interest rate contracts:							
Interest rate swap contracts	172	373	5,817	1,088	7,450	44	(249)
Cross-currency swap contracts	—	—	62	—	62	—	(17)
	172	373	5,879	1,088	7,512	44	(266)

Group

	31 December 2005						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward foreign exchange contracts	49,240	28,110	1,109	950	79,409	448	(400)
Currency option contracts purchased	2,291	1,068	96,975	—	100,334	7,403	(64)
	51,531	29,178	98,084	950	179,743	7,851	(464)
Interest rate contracts:							
Interest rate swap contracts	10,262	17,601	49,321	45,071	122,255	1,618	(2,883)
Cross-currency swap contracts	136	2,296	1,736	909	5,077	418	(113)
Forward rate agreements	7,174	5,097	22,564	11,525	46,360	67	(67)
Interest rate option contracts purchased/written	263	1,562	3,068	3,411	8,304	3	(3)
	17,835	26,556	76,689	60,916	181,996	2,106	(3,066)
	69,366	55,734	174,773	61,866	361,739	9,957	(3,530)

(In RMB millions, unless otherwise stated)

Bank

	31 December 2005						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward foreign exchange contracts	38,982	24,110	969	950	65,011	389	(370)
Currency option contracts purchased	47	—	96,842	—	96,889	7,335	(1)
	39,029	24,110	97,811	950	161,900	7,724	(371)
Interest rate contracts:							
Interest rate swap contracts	9,650	16,272	40,154	42,377	108,453	1,059	(2,182)
Cross-currency swap contracts	136	2,263	1,579	909	4,887	304	(109)
Forward rate agreements	7,174	5,097	22,564	11,525	46,360	67	(67)
Interest rate option contracts purchased/written	—	167	—	3,256	3,423	—	—
	16,960	23,799	64,297	58,067	163,123	1,430	(2,358)
	55,989	47,909	162,108	59,017	325,023	9,154	(2,729)

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

Group and Bank

	31 December 2005						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Interest rate contracts:							
Interest rate swap contracts	—	48	2,600	2,599	5,247	46	(258)
Cross-currency swap contracts	—	—	—	67	67	—	(13)
	—	48	2,600	2,666	5,314	46	(271)

(In RMB millions, unless otherwise stated)

The replacement costs and credit risk weighted amounts in respect of the above derivatives of the Group and the Bank as at the balance sheet date, which have taken into account the effects of bilateral netting arrangements, were as follows:

Replacement costs

	Group		Bank	
	2006	2005	2006	2005
Currency derivatives	9,266	7,851	9,209	7,724
Interest rate derivatives	1,271	2,106	1,155	1,430
Other derivatives	2	—	—	—
	10,539	9,957	10,364	9,154

Credit risk weighted amounts

	Group		Bank	
	2006	2005	2006	2005
Currency derivatives	2,685	1,456	2,284	1,140
Interest rate derivatives	2,271	3,403	2,065	2,622
Other derivatives	6	—	—	—
	4,962	4,859	4,349	3,762

34. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

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

	Group		Bank	
	2006	2005	2006	2005
Authorised, but not contracted for	2,496	680	2,479	680
Contracted, but not provided for	526	1,370	526	1,367
	3,022	2,050	3,005	2,047

(In RMB millions, unless otherwise stated)

(b) Operating lease commitments

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

	Group		Bank	
	2006	2005	2006	2005
Within one year	1,387	1,331	1,265	1,219
Between the second and fifth year, inclusive	2,917	2,844	2,661	2,649
After five years	1,443	1,665	1,346	1,506
	5,747	5,840	5,272	5,374

(c) Credit commitments

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

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

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

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

	Group		Bank	
	2006	2005	2006	2005
Letters of credit issued	74,531	51,718	71,793	49,075
Guarantees issued	171,205	121,117	168,410	117,291
Acceptances	134,684	92,565	134,684	92,565
Undrawn commitments to lend:				
Within one year	80,812	25,665	48,375	11,507
Over one year	143,785	74,566	127,303	63,975
Undrawn credit limit for credit card	89,477	67,728	88,709	67,071
	694,494	433,359	639,274	401,484

	Group		Bank	
	2006	2005	2006	2005
Credit risk weighted amounts of credit commitments	386,513	237,221	376,710	233,151

(In RMB millions, unless otherwise stated)

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

The credit risk weighted amounts stated above include the effects of bilateral netting arrangements.

(d) Legal proceedings

There were litigation cases of which the Bank and/or its subsidiaries are the defendants, which are under legal proceedings. The claimed amounts at the end of the year are as follows:

	Group		Bank	
	2006	2005	2006	2005
Claimed amounts	3,722	2,929	3,722	2,908

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

(e) Redemption commitments of government bonds

As an underwriting agent of the Government, the Bank underwrites certain PRC government bonds and sells the bonds to the general public. The Bank is obliged to redeem the bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds plus any interest accrued up to the redemption date. As at 31 December 2006, the Bank had underwritten and sold bonds with an accumulated amount of RMB205,522 million (2005: RMB232,418 million) to the general public, and that have not yet matured nor been redeemed. The directors expect that the amount of redemption of these government bonds through the Bank prior to maturity will not be material.

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

(f) Underwriting obligations

At the balance sheet date, the unexpired underwriting commitments of the PRC government bonds were as follows:

	Group and Bank	
	2006	2005
Underwriting obligations	—	2,370

(In RMB millions, unless otherwise stated)

35. DESIGNATED DEPOSITS AND LOANS

	Group and Bank	
	2006	2005
Designated deposits	125,020	101,718
Designated loans	124,189	101,212

Designated deposits represent funds that depositors have instructed the Group or the Bank to use to make loans to third parties as designated by them. The credit risk remains with the depositors.

The difference between designated deposits and designated loans represents the undesignated amount of deposits, which is included in amounts due to customers.

36. ASSETS PLEDGED AS SECURITY

As at 31 December 2006, the assets of the Group and of the Bank including securities, bills and loans which have been pledged for the repurchase agreements amounted to approximately RMB48,610 million (2005: RMB32,301 million) and RMB49,119 million (2005: RMB33,109 million), respectively.

37. FIDUCIARY ACTIVITIES

The Group provides custody, trustee and asset management services to third parties. Revenue from such activities is included in ''Fee and commission income'' set out in note 6 above. Those assets held in a fiduciary capacity are not included in the financial statements.

(In RMB millions, unless otherwise stated)

38. RELATED PARTY DISCLOSURES

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

(a) The MOF

ICBC was formerly a state-owned financial institution under the control of the State Council through the MOF. The Bank has undergone a restructuring under the direction of the State Council. As at 31 December 2006, the MOF directly owned 35.3292% of the issued share capital of the Bank. The Group enters into banking transactions with the MOF in its normal course of business, including the subscription and redemption of government bonds. Details of the material transactions are as follows:

	2006	2005
Balances at end of the year:		
The PRC government bonds and the special government bond	431,717	365,823
MOF receivable (note 20(a)(iii))	226,378	246,000
Payable to MOF (note 29)	12,224	8,028

	2006	2005
Transactions during the year:		
Subscription of PRC government bonds	123,570	86,445
Redemption of PRC government bonds	34,140	24,184
Interest income on bonds	11,154	15,165
Expenses relating to the special government bond (note 20(a)(ii))	—	5,610
Repayment of MOF receivable (note 20(a)(iii))	19,622	—
Interest income on MOF receivable	7,418	3,895

	2006 %	2005 %
The interest rate ranges during the year are as follows:		
Interest income on bonds	1.6 to 11.8	1.6 to 11.8

The MOF is a ministry under the State Council, primarily responsible for, among others, state fiscal revenues and expenditures, and taxation policies. Enterprises or legal entities under the control or supervision of the MOF are mainly financial institutions, government departments or agencies. The directors are of the view that transactions with enterprises or legal entities under the control or supervision of the MOF are conducted in the ordinary course of business. With due regard to the substance of the relationship, the directors are of the opinion that none of these transactions are considered related party transactions that require disclosure.

(In RMB millions, unless otherwise stated)

(b) Huijin

Huijin was incorporated as a wholly-state-owned investment company with the approval of the State Council. It was established to hold certain equity investments on behalf of the State Council, and to represent the Government in exercising its investors' rights and obligations in certain financial institutions. As at 31 December 2006, Huijin directly owned approximately 35.3292% of the issued share capital of the Bank.

In April 2005, the Bank entered into an agreement with Huijin, pursuant to which the Bank purchased from Huijin an option to sell to Huijin a maximum of US$12,000 million in exchange for RMB at a pre-determined exchange rate of US$1 to RMB8.2765. The option is exercisable in 2008 in 12 equal monthly instalments. The Bank will pay a total option premium of RMB2,979 million to Huijin by 12 equal monthly instalments in 2008. The purpose of the option is to economically hedge against the Bank's currency risk arising from part of the US$15,000 million capital injection made by Huijin in 2005.

The Bank values the option using the Garman Kohlhagen Option model. The parameters used for the valuation include relevant market interest rates of RMB and United States dollar (''US$''), the spot exchange rates of RMB against US$ sourced from the PBOC, and average historical foreign exchange volatility.

The fair value of the option as at 31 December 2006 was RMB8,696 million (2005: RMB7,335 million), which is included in other assets (note 24). The premium payable in respect of the option was stated at its discounted value of RMB2,849 million as at 31 December 2006 (2005: RMB2,767 million) and is included in other liabilities (note 29). The related gain for the year was RMB1,279 million (2005: RMB4,226 million) and is included in ''Gain/(loss) from foreign exchange and foreign exchange products, net''.

In addition, the Group also entered into banking transactions with Huijin in the normal course of business under normal commercial terms and at the market rates. Details of the material transactions are as follows:

	2006	2005
Balances at end of the year:		
Deposits from Huijin	14,911	—
Payable to Huijin (note 29)	12,224	—

	2006	2005
Transactions during the year:		
Interest expenses on deposits	176	—

	2006 %	2005 %
The interest rate range during the year is as follow:		
Interest expenses on deposits	0.7 to 5.1	—

(In RMB millions, unless otherwise stated)

Huijin has equity interests in certain other banks and financial institutions under the direction of the Government. The Group enters into transactions with these banks and financial institutions in the ordinary course of its business at normal commercial terms. The directors consider that these banks and financial institutions are competitors of the Group. Significant transactions during the year conducted with these banks and financial institutions, subsequent to Huijin becoming a shareholder of the Bank, and the corresponding balances as at 31 December 2006 are as follows:

	2006	2005
Balances at end of the year:		
Debt securities issued by these banks and financial institutions	7,997	7,497
Due from these banks and financial institutions	19,774	13,591
Due to these banks and financial institutions	21,064	12,055

	2006	2005
Transactions during the year:		
Interest income form debt securities issued by these banks and financial institutions	398	334
Interest income from amounts due from these banks and financial institutions	103	311
Interest expenses on amounts due to these banks and financial institutions	400	164

	2006 %	2005 %
Interest rate ranges during the year are as follows:		
Debt securities issued by these banks and financial institutions	3.7 to 8.3	4.3 to 8.3
Due from these banks and financial institutions	0 to 10.0	0 to 4.7
Due to these banks and financial institutions	0 to 13.0	0 to 5.0

Interest rates disclosed above vary across product groups and transactions depending on maturity, credit risk of counterparty and currency. In particular, given local market conditions, the spread of certain significant or long dated transactions can vary across the market.

(In RMB millions, unless otherwise stated)

(c) Shareholders with significant influence

(i) Goldman Sachs

Goldman Sachs is considered to have significant influence over the Bank in view of its nominated representative serving on the Bank's board of directors. The corresponding balances as at 31 December 2006 are as follow:

	2006	2005
Balances at end of the year:		
Debt securities issued by Goldman Sachs	4,993	N/A
Deposits from Goldman Sachs	1,554	N/A

	2006	2005
Transactions during the year:		
Interest income from debt securities issued by Goldman Sachs	143	N/A
Interest expense on deposits from Goldman Sachs	8	N/A

	2006	2005
	%	%
Interest rate ranges during the year are as follows:		
Debt securities issued by Goldman Sachs	2.8 to 6.0	N/A
Deposits from Goldman Sachs	5.27	N/A

(ii) SSF

SSF has substantial equity interests in the Bank and is considered having significant influence in the Bank. The corresponding balances as at 31 December 2006 are as follows:

	2006	2005
Balances at end of the year:		
Deposits from SSF	13,500	N/A

	2006	2005
Transactions during the year:		
Interest expense on deposits from SSF	491	N/A

	2006	2005
	%	%
The interest rate range during the year is as follow:		
Deposits from SSF	3.5 to 4.1	N/A

(d) Associates

Balances with associates at end of the year:

	2006	2005
Due to associates	31	76

(e) Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, supervisory board and executive officers.

The aggregate compensation for the year, other than those disclosed in note 9 above, is as follows:

	2006 RMB'000	2005 RMB'000
Salaries and other emoluments	2,338	2,956
Discretionary bonuses	3,773	2,999
Contributions to defined contribution schemes	950	1,315
	7,061	7,270

Companies or corporations in which the key management of the Group, or their close relatives, are shareholders or key management personnel who are able to exercise control or significant influence, are also considered as related parties of the Group.

In the opinion of the directors, the transactions between the Group and the aforementioned parties were conducted on terms and conditions similar to those offered to other unrelated customers. Since the transaction volume was not significant, and the transactions were not material, no further disclosure has been made.

(f) Transactions with other state-owned entities in the PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the Government through its numerous authorities, affiliates or other organisations (collectively ''state-owned entities''). During the year, the Group had transactions with state-owned entities including, but not limited to, lending and deposit taking, taking and placing of inter-bank balances, entrusted lending, provision of intermediary services, the sale, purchase, underwriting and redemption of bonds issued by other state-owned entities, and the sale, purchase, and leasing of property and other assets.

The management considers that transactions with other state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly controlled or owned by the Government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities. Having due regard to the substance of the relationship, the directors are of the opinion that none of these transactions are considered related party transactions that require disclosure.

39. SEGMENT INFORMATION

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

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

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

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

(a) Business segments

The Group comprises the following main business segments:

Corporate banking

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

Personal banking

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

Treasury operations

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

Others

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

(In RMB millions, unless otherwise stated)

	Corporate banking	Personal banking	Treasury operations	Others	Total
Year ended 31 December 2006					
External net interest income/(expenses)	118,980	(32,028)	76,166	—	163,118
Internal net interest income/(expenses)	(31,415)	84,796	(53,381)	—	—
Net fee and commission income	6,682	9,489	173	—	16,344
Other operating income/(expenses), net	(1,789)	—	2,416	1,549	2,176
Operating income	92,458	62,257	25,374	1,549	181,638
Operating expenses	(33,519)	(33,142)	(7,904)	(2,832)	(77,397)
Provision for impairment losses on:					
Loans and advances to customers	(27,951)	(2,063)	—	—	(30,014)
Others	(513)	—	40	(1,702)	(2,175)
Operating profit/(loss)	30,475	27,052	17,510	(2,985)	72,052
Share of profits and losses of associates	—	—	—	13	13
Profit/(loss) before tax	30,475	27,052	17,510	(2,972)	72,065
Income tax expense					(22,185)
Profit for the year					49,880
Other segment information:					
Depreciation	3,987	4,445	1,081	184	9,697
Amortisation	501	423	90	17	1,031
Capital expenditure	2,672	2,979	725	123	6,499
31 December 2006					
Segment assets	3,059,987	642,691	3,799,188	6,758	7,508,624
Investments in associates	—	—	—	127	127
Total assets	3,059,987	642,691	3,799,188	6,885	7,508,751
Segment liabilities	3,168,662	3,371,670	492,996	4,422	7,037,750
Other segment information:					
Credit commitments	605,017	89,477	—	—	694,494

(In RMB millions, unless otherwise stated)

	Corporate banking	Personal banking	Treasury operations	Others	Total
Year ended 31 December 2005					
External net interest income/(expenses)	112,255	(21,157)	62,505	—	153,603
Internal net interest income/(expenses)	(33,275)	68,710	(35,435)	—	—
Net fee and commission income/(expenses)	4,666	5,993	(113)	—	10,546
Other operating income, net	3,836	135	1,339	2,161	7,471
Operating income	87,482	53,681	28,296	2,161	171,620
Operating expenses	(35,360)	(29,657)	(13,974)	(2,594)	(81,585)
Provision for impairment losses on:					
Loans and advances to customers	(24,649)	(1,940)	—	—	(26,589)
Others	(95)	—	(41)	(289)	(425)
Operating profit/(loss)	27,378	22,084	14,281	(722)	63,021
Share of profits and losses of associates	—	—	—	5	5
Profit/(loss) before tax	27,378	22,084	14,281	(717)	63,026
Income tax expense					(25,007)
Profit for the year					38,019
Other segment information:					
Depreciation	4,377	4,273	1,082	120	9,852
Amortisation	381	249	77	5	712
Capital expenditure	4,078	3,981	1,008	111	9,178
31 December 2005					
Segment assets	2,772,700	566,087	3,086,874	30,350	6,456,011
Investments in associates	—	—	—	120	120
Total assets	2,772,700	566,087	3,086,874	30,470	6,456,131
Segment liabilities	2,676,927	3,142,632	311,181	65,515	6,196,255
Other segment information:					
Credit commitments	365,631	67,728	—	—	433,359

(b) Geographical segments

The Group operates principally in Mainland China with branches located in 35 provinces, autonomous regions and municipalities directly under the Government. The Group also has branches and subsidiaries operating outside Mainland China in Hong Kong, Macau, Singapore, Frankfurt, Luxembourg, Seoul, Busan, Tokyo, London and Almaty.

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

The details of the geographical segments are as follows:

(i) Head Office: including the head office business division;

(ii) Yangtze River Delta: including Shanghai, Zhejiang, Jiangsu and Ningbo;

(iii) Pearl River Delta: including Guangdong, Shenzhen, Fujian and Xiamen;

(In RMB millions, unless otherwise stated)

(iv) Bohai Rim: including Beijing, Tianjin, Hebei, Shandong and Qingdao;

(v) Central China: including Shanxi, Henan, Hubei, Hunan, Anhui, Jiangxi and Hainan;

(vi) Western China: including Chongqing, Sichuan, Guizhou, Yunnan, Guangxi, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang and Inner Mongolia;

(vii) Northeastern China: including Liaoning, Heilongjiang, Jilin and Dalian; and

(viii) Overseas and others: branches located outside Mainland China, including Hong Kong, Macau, Singapore, Seoul, Busan, Tokyo, Frankfurt, Luxembourg; and subsidiaries including ICBC (Asia), ICIC, ICEA, ICBC (London), ICBC (Almaty), ICBC Credit Suisse Asset Management and ICBC (Luxembourg).

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Eliminations	Total
Year ended 31 December 2006										
External net interest income	80,407	28,431	13,140	6,551	12,386	15,161	3,015	4,027	—	163,118
Internal net interest income/ (expenses)	(65,579)	8,589	8,242	26,780	8,609	8,655	5,889	(1,185)	—	—
Net fee and commission income	747	3,511	2,505	2,983	2,277	2,342	986	993	—	16,344
Other operating income/(expenses), net	(2,949)	1,457	936	699	739	741	164	389	—	2,176
Operating income	12,626	41,988	24,823	37,013	24,011	26,899	10,054	4,224	—	181,638
Operating expenses	(6,115)	(13,138)	(9,424)	(12,952)	(12,957)	(14,063)	(6,992)	(1,756)	—	(77,397)
Provisions for impairment losses on:										
Loans and advances to customers	(2,111)	(3,116)	(2,758)	(4,629)	(3,655)	(6,454)	(7,000)	(291)	—	(30,014)
Others	—	(203)	(23)	(668)	(510)	(565)	(245)	39	—	(2,175)
Operating profit/(loss)	4,400	25,531	12,618	18,764	6,889	5,817	(4,183)	2,216	—	72,052
Share of profits and losses of associates	8	—	—	—	—	—	—	5	—	13
Profit/(loss) before tax	4,408	25,531	12,618	18,764	6,889	5,817	(4,183)	2,221	—	72,065
Income tax expense										(22,185)
Profit for the year										49,880
Other segment information:										
Depreciation	862	1,513	1,129	1,640	1,636	1,803	1,057	57	—	9,697
Amortisation	309	155	53	95	164	140	60	55	—	1,031
Capital expenditure	983	1,104	583	1,362	965	1,110	273	119	—	6,499
31 December 2006										
Segment assets	4,205,413	1,484,222	921,113	1,845,511	912,074	983,362	503,022	208,601	(3,554,694)	7,508,624
Investments in associates	74	—	—	—	—	—	—	53	—	127
Total assets	4,205,487	1,484,222	921,113	1,845,511	912,074	983,362	503,022	208,654	(3,554,694)	7,508,751
Segment liabilities	3,806,740	1,459,101	909,847	1,827,843	907,456	979,484	508,779	175,359	(3,554,694)	7,019,915
Unallocated liabilities										17,835
Total liabilities										7,037,750
Other segment information:										
Credit commitments	124,432	158,164	68,919	159,544	45,045	50,603	12,270	75,517	—	694,494

(In RMB millions, unless otherwise stated)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Eliminations	Total
Year ended 31 December 2005										
External net interest income	65,703	27,110	14,259	8,939	13,776	16,029	5,297	2,490	—	153,603
Internal net interest income/ (expenses)	(49,391)	7,267	6,168	22,256	5,504	6,105	2,708	(617)	—	—
Net fee and commission income	531	2,194	1,514	2,125	1,494	1,538	526	624	—	10,546
Other operating income, net	1,985	1,719	619	1,061	249	1,067	64	707	—	7,471
Operating income	18,828	38,290	22,560	34,381	21,023	24,739	8,595	3,204	—	171,620
Operating expenses	(10,658)	(11,838)	(8,734)	(12,418)	(13,908)	(15,657)	(7,035)	(1,337)	—	(81,585)
Provisions for impairment losses on:										
Loans and advances to customers	(20)	60	(4,065)	(8,735)	(6,549)	(3,078)	(4,528)	326	—	(26,589)
Others	—	159	(307)	105	(306)	15	(91)	—	—	(425)
Operating profit/(loss)	8,150	26,671	9,454	13,333	260	6,019	(3,059)	2,193	—	63,021
Share of profits and losses of associates	5	—	—	—	—	—	—	—	—	5
Profit/(loss) before tax	8,155	26,671	9,454	13,333	260	6,019	(3,059)	2,193	—	63,026
Income tax expense										(25,007)
Profit for the year										38,019
Other segment information:										
Depreciation	1,016	1,436	1,135	1,580	1,720	1,864	1,039	62	—	9,852
Amortisation	129	88	58	88	157	72	68	52	—	712
Capital expenditure	727	1,692	820	2,194	1,554	1,354	685	152	—	9,178
31 December 2005										
Segment assets	3,272,655	1,280,370	840,838	1,643,236	838,312	902,276	492,761	180,498	(2,994,935)	6,456,011
Investments in associates	90	—	—	—	—	—	—	30	—	120
Total assets	3,272,745	1,280,370	840,838	1,643,236	838,312	902,276	492,761	180,528	(2,994,935)	6,456,131
Segment liabilities	3,057,010	1,250,263	841,208	1,622,781	838,001	898,225	498,946	168,697	(2,994,935)	6,180,196
Unallocated liabilities										16,059
Total liabilities										6,196,255
Other segment information:										
Credit commitments	104,544	73,571	52,094	50,767	27,004	49,847	8,913	66,619	—	433,359

(In RMB millions, unless otherwise stated)

40. FINANCIAL INSTRUMENTS RISK MANAGEMENT

A description and an analysis of the major risks faced by the Group are as follows:

(a) Credit risk

Credit risk is the risk of loss from the default by an obligor or counterparty when payments fall due.

Credit risk is often greater when counterparties are concentrated in one single industry or geographic location or have comparable economic characteristics.

The majority of the loans of the Group are for use within Mainland China, and major off-balance sheet items such as bank acceptances are also related to the domestic customers in Mainland China. However, different areas in Mainland China have their unique characteristics in terms of economic development. Therefore, each area in Mainland China could present a different credit risk.

The Group carries out credit assessment before granting credit to individual customers and monitors the credit granted on a regular basis. Credit risk is also managed through obtaining collateral and guarantees. In the case of off-balance sheet credit related commitments, guarantee deposits are in general received by the Group to reduce credit risk.

The Group regularly reviews its limits placed on different industry groups and geographical locations. Details of the industrial and geographical concentration of the Group's credit business are set out below.

The composition of gross loans and advances by industry is as follows:

	Group				Bank			
	2006		2005		2006		2005	
Manufacturing	683,286	19%	673,664	20%	677,208	19%	667,894	21%
Transportation and logistics	536,624	15%	379,015	11%	526,625	15%	369,059	12%
Power generation and supply	346,499	9%	284,935	9%	345,896	10%	283,974	9%
Retail, wholesale and catering	272,480	8%	280,969	9%	259,232	7%	269,044	8%
Property development	256,184	7%	217,000	7%	237,475	7%	199,993	6%
Education, hospitals and other non-profit making organisations	107,537	3%	104,890	3%	107,534	3%	104,017	3%
Construction	53,745	2%	93,864	3%	49,982	1%	89,688	3%
Others	374,561	10%	335,074	10%	358,756	10%	322,765	10%
Subtotal for corporate loans	2,630,916	73%	2,369,411	72%	2,562,708	72%	2,306,434	72%
Personal and business mortgage loans	486,074	13%	450,092	14%	474,470	13%	438,146	14%
Others	101,819	3%	77,269	2%	101,685	3%	76,967	2%
Subtotal for personal loans	587,893	16%	527,361	16%	576,155	16%	515,113	16%
	3,218,809	89%	2,896,772	88%	3,138,863	88%	2,821,547	88%
Discounted bills	412,362	11%	392,781	12%	412,313	12%	392,717	12%
	3,631,171	100%	3,289,553	100%	3,551,176	100%	3,214,264	100%

In light of the supplementary requirements of the financial statistics system of the PBOC in 2006, the Bank has changed the grouping among its personal loans. Corresponding adjustment was made to the grouping at the end of 2005.

(In RMB millions, unless otherwise stated)

The geographical segment of gross loans and advances of the Group is analysed as follows:

	Group			
	2006		2005	
Head Office	259,289	7%	263,117	8%
Yangtze River Delta	907,125	25%	791,990	24%
Pearl River Delta	513,514	14%	453,773	14%
Bohai Rim	640,213	18%	574,513	17%
Central China	467,142	13%	424,628	13%
Western China	533,444	15%	484,134	15%
Northeastern China	198,427	5%	193,000	6%
Overseas and others	112,017	3%	104,398	3%
	3,631,171	100%	3,289,553	100%

The Bank level geographical segment information of gross loans and advance is not presented since the relevant balances attributable to the subsidiaries are insignificant to the Group and are mainly included in the ''Overseas and others'' segment above.

(b) Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from amount or maturity mismatches of assets and liabilities.

The Group manages its liquidity risk through the Asset and Liability Management Department and aims at:

- optimising the assets and liabilities structure;
- maintaining the stability of the deposit base;
- projecting cash flows and evaluating the level of current assets; and
- in terms of liquidity of the branches, maintaining an efficient internal fund transfer mechanism.

(In RMB millions, unless otherwise stated)

The maturity analysis of assets and liabilities of the Group and the Bank at the balance sheet date is as follows:

31 December 2006
Group

	Overdue/ repayable on demand	Less than three months	Three months to one year	One to five years	More than five years	Undated	Total
Assets:							
Cash and balances with central banks	106,150	—	—	—	—	597,507	703,657
Due from banks and other financial institutions (i)	5,698	185,220	52,356	2,450	—	—	245,724
Loans and advances to customers	45,600	570,370	1,086,543	885,149	859,394	86,922	3,533,978
Investments							
— Receivables	—	—	—	994,163	112,000	—	1,106,163
— Held-to-maturity debt securities	—	181,603	462,029	376,922	208,383	—	1,228,937
— Available-for-sale investments	—	85,825	120,571	137,802	154,910	5,434	504,542
— Investments at fair value through profit or loss	—	5,818	12,470	1,660	1,165	43	21,156
— Investments in associates	—	—	—	—	—	127	127
Property and equipment	—	—	—	—	—	87,609	87,609
Others	10,343	9,970	14,228	10,617	845	30,855	76,858
Total assets	167,791	1,038,806	1,748,197	2,408,763	1,336,697	808,497	7,508,751
Liabilities:							
Due to banks and other financial institutions (ii)	347,465	91,340	9,737	81	305	—	448,928
Due to customers (iii)	3,190,873	1,108,245	1,472,879	581,930	3,954	—	6,357,881
Debt issued	—	—	—	2,947	35,000	—	37,947
Others	135,867	18,036	32,423	6,586	82	—	192,994
Total liabilities	3,674,205	1,217,621	1,515,039	591,544	39,341	—	7,037,750
Net liquidity gap	(3,506,414)	(178,815)	233,158	1,817,219	1,297,356	808,497	471,001

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(iii) Includes certificates of deposits

(In RMB millions, unless otherwise stated)

31 December 2006
Bank

	Overdue/ repayable on demand	Less than three months	Three months to one year	One to five years	More than five years	Undated	Total
Assets:							
Cash and balances with central banks	105,745	—	—	—	—	597,500	703,245
Due from banks and other financial institutions (i)	12,556	141,310	52,356	2,450	—	—	208,672
Loans and advances to customers	41,077	561,820	1,077,350	853,091	835,531	85,563	3,454,432
Investments							
— Receivables	—	—	—	994,163	112,000	—	1,106,163
— Held-to-maturity debt securities	—	179,885	464,077	377,700	214,549	—	1,236,211
— Available-for-sale investments	—	85,484	119,235	131,116	152,429	4,375	492,639
— Investments at fair value through profit or loss	—	5,818	12,264	1,142	164	—	19,388
— Investments in subsidiaries	—	—	—	—	—	7,260	7,260
— Investments in associates	—	—	—	—	—	74	74
Property and equipment	—	—	—	—	—	87,251	87,251
Others	8,714	9,557	14,094	10,534	782	29,632	73,313
Total assets	168,092	983,874	1,739,376	2,370,196	1,315,455	811,655	7,388,648
Liabilities:							
Due to banks and other financial institutions (ii)	347,656	89,415	10,235	81	305	—	447,692
Due to customers	3,168,111	1,033,468	1,466,126	579,754	3,944	—	6,251,403
Debt issued	—	—	—	—	35,000	—	35,000
Others	133,614	17,737	32,054	6,477	81	—	189,963
Total liabilities	3,649,381	1,140,620	1,508,415	586,312	39,330	—	6,924,058
Net liquidity gap	(3,481,289)	(156,746)	230,961	1,783,884	1,276,125	811,655	464,590

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(In RMB millions, unless otherwise stated)

31 December 2005
Group

	Overdue/ repayable on demand	Less than three months	Three months to one year	One to five years	More than five years	Undated	Total
Assets:							
Cash and balances with central banks	99,735	—	—	—	—	454,138	553,873
Due from banks and other financial institutions (i)	25,331	161,437	34,484	145	—	—	221,397
Loans and advances to customers	43,621	518,383	997,064	829,482	716,047	101,264	3,205,861
Investments							
— Receivables	—	—	—	989,461	85,000	—	1,074,461
— Held-to-maturity debt securities	—	79,606	328,393	323,469	151,236	—	882,704
— Available-for-sale investments	—	71,312	77,033	124,586	51,948	5,304	330,183
— Investments at fair value through profit or loss	—	—	877	15,374	2,090	—	18,341
— Investments in subsidiaries	—	—	—	—	—	120	120
Property and equipment	—	—	—	—	—	92,984	92,984
Others	11,875	17,053	7,774	4,643	2,122	32,740	76,207
Total assets	180,562	847,791	1,445,625	2,287,160	1,008,443	686,550	6,456,131
Liabilities:							
Due to banks and other financial institutions (ii)	174,781	65,759	24,186	485	—	—	265,211
Due to customers (iii)	2,878,156	1,098,275	1,357,413	403,898	4,828	—	5,742,570
Debt issued	—	—	—	3,076	35,000	—	38,076
Others	112,221	14,656	18,102	5,352	67	—	150,398
Total liabilities	3,165,158	1,178,690	1,399,701	412,811	39,895	—	6,196,255
Net liquidity gap	(2,984,596)	(330,899)	45,924	1,874,349	968,548	686,550	259,876

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(iii) Includes certificates of deposits

(In RMB millions, unless otherwise stated)

31 December 2005
Bank

	Overdue/ repayable on demand	Less than three months	Three months to one year	One to five years	More than five years	Undated	Total
Assets:							
Cash and balances with central banks	99,435	—	—	—	—	454,137	553,572
Due from banks and other financial institutions (i)	15,330	162,303	41,383	145	—	—	219,161
Loans and advances to customers	40,751	509,245	986,700	801,558	693,993	98,849	3,131,096
Investments							
— Receivables	—	—	—	989,461	85,000	—	1,074,461
— Held-to-maturity debt securities	—	79,182	327,579	324,410	156,506	—	887,677
— Available-for-sale investments	—	70,996	75,691	118,330	49,480	4,614	319,111
— Investments at fair value through profit or loss	—	—	877	14,652	1,053	—	16,582
— Investments in subsidiaries	—	—	—	—	—	7,112	7,112
— Investments in associates	—	—	—	—	—	74	74
Property and equipment	—	—	—	—	—	92,615	92,615
Others	9,970	16,909	7,244	4,643	2,002	32,596	73,364
Total assets	165,486	838,635	1,439,474	2,253,199	988,034	689,997	6,374,825
Liabilities:							
Due to banks and other financial institutions (ii)	173,051	66,451	24,556	485	—	—	264,543
Due to customers	2,860,671	1,052,375	1,353,874	400,117	4,817	—	5,671,854
Debt issued	—	—	—	—	35,000	—	35,000
Others	110,401	14,656	18,102	5,352	67	—	148,578
Total liabilities	3,144,123	1,133,482	1,396,532	405,954	39,884	—	6,119,975
Net liquidity gap	(2,978,637)	(294,847)	42,942	1,847,245	948,150	689,997	254,850

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(c) Market risk

The Group's market risk mainly arises from open positions in interest rate and currency products. The management of these specific risks is summarised in notes 40(e) and 40(d), respectively.

(d) Currency risks

The Group conducts it businesses mainly in RMB, with certain transactions denominated in US$, Hong Kong dollar (''HK$'') and, to a much lesser extent, other currencies. These transactions arise from the Group's treasury exposures and foreign operations.

The exchange rate of RMB to US$ was set by the PBOC and had fluctuated within a narrow band prior to July 2005. Since then, a managed-floating exchange rate system has been used and the exchange rate of US$ to RMB has gradually risen. The HK$ exchange rate has been pegged to the US$ and therefore the exchange rate of RMB to HK$ has fluctuated in line with the changes in exchange rate of RMB to US$.

(In RMB millions, unless otherwise stated)

The Group used the injected capital of US$15,000 million in 2005 mainly to invest in debt investments and money market instruments denominated in US$. In April 2005, the Bank purchased from Huijin an option to sell to Huijin a maximum of US$12,000 million in exchange for RMB at a pre-determined exchange rate of US$1 to RMB8.2765. Details of this option are set out in note 38(b).

The Group used the net proceeds from its H-share offering mainly in placements with banks and other financial institutions and investments. The Group is managing the currency risk of this exposure through various means including entering into hedging activities that are available to the Group.

A breakdown of relevant assets and liabilities analysed by currency is as follows:

31 December 2006
Group

	RMB	US$	HK$	Others	Total
Assets:					
Cash and balances with central banks	693,056	7,122	2,049	1,430	703,657
Due from banks and other financial institutions (i)	52,616	168,370	17,057	7,681	245,724
Loans and advances to customers	3,300,615	127,069	87,635	18,659	3,533,978
Investments	2,640,638	199,870	7,756	12,661	2,860,925
Property and equipment	86,927	331	259	92	87,609
Others	66,657	4,388	3,764	2,049	76,858
Total assets	6,840,509	507,150	118,520	42,572	7,508,751
Liabilities:					
Due to banks and other financial institutions (ii)	354,267	77,240	9,113	8,308	448,928
Due to customers (iii)	6,095,210	155,269	88,658	18,744	6,357,881
Debt issued	35,000	2,947	—	—	37,947
Others	128,554	55,118	4,364	4,958	192,994
Total liabilities	6,613,031	290,574	102,135	32,010	7,037,750
Net position	227,478	216,576	16,385	10,562	471,001
Off-balance sheet credit commitments	454,140	156,451	56,923	26,980	694,494

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(iii) Includes certificates of deposits

(In RMB millions, unless otherwise stated)

31 December 2006
Bank

	RMB	US$	HK$	Others	Total
Assets:					
Cash and balances with central banks	693,031	7,096	1,869	1,249	703,245
Due from banks and other financial institutions (i)	52,334	129,063	21,231	6,044	208,672
Loans and advances to customers	3,300,615	109,212	29,712	14,893	3,454,432
Investments	2,640,584	201,399	9,185	10,567	2,861,735
Property and equipment	86,906	240	15	90	87,251
Others	66,790	4,341	293	1,889	73,313
Total assets	6,840,260	451,351	62,305	34,732	7,388,648
Liabilities:					
Due to banks and other financial institutions (ii)	354,339	75,413	10,178	7,762	447,692
Due to customers	6,094,985	111,855	28,193	16,370	6,251,403
Debt issued	35,000	—	—	—	35,000
Others	128,503	54,705	1,786	4,969	189,963
Total liabilities	6,612,827	241,973	40,157	29,101	6,924,058
Net position	227,433	209,378	22,148	5,631	464,590
Off-balance sheet credit commitments	454,130	148,288	11,589	25,267	639,274

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(In RMB millions, unless otherwise stated)

31 December 2005
Group

	RMB	US$	HK$	Others	Total
Assets:					
Cash and balances with central banks	544,796	5,652	2,083	1,342	553,873
Due from banks and other financial institutions (i)	97,977	100,676	9,883	12,861	221,397
Loans and advances to customers	2,971,018	132,304	82,450	20,089	3,205,861
Investments	2,192,798	91,349	7,934	13,728	2,305,809
Property and equipment	92,182	253	261	288	92,984
Others	64,601	8,577	1,812	1,217	76,207
Total assets	5,963,372	338,811	104,423	49,525	6,456,131
Liabilities:					
Due to banks and other financial institutions (ii)	215,081	31,644	10,531	7,955	265,211
Due to customers (iii)	5,502,327	145,597	69,450	25,196	5,742,570
Debt issued	35,000	3,076	—	—	38,076
Others	130,334	7,256	6,536	6,272	150,398
Total liabilities	5,882,742	187,573	86,517	39,423	6,196,255
Net position	80,630	151,238	17,906	10,102	259,876
Off-balance sheet credit commitments	329,797	64,909	28,259	10,394	433,359

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(iii) Includes certificates of deposits

(In RMB millions, unless otherwise stated)

31 December 2005
Bank

	RMB	US$	HK$	Others	Total
Assets:					
Cash and balances with central banks	544,782	5,635	1,936	1,219	553,572
Due from banks and other financial institutions (i)	97,746	98,354	10,020	13,041	219,161
Loans and advances to customers	2,971,826	115,944	25,824	17,502	3,131,096
Investments	2,192,892	89,544	10,390	12,191	2,305,017
Property and equipment	92,074	252	4	285	92,615
Others	61,885	8,483	1,792	1,204	73,364
Total assets	5,961,205	318,212	49,966	45,442	6,374,825
Liabilities:					
Due to banks and other financial institutions (ii)	233,919	17,093	8,540	4,991	264,543
Due to customers	5,502,119	121,102	31,267	17,366	5,671,854
Debt issued	35,000	—	—	—	35,000
Others	128,576	4,980	7,666	7,356	148,578
Total liabilities	5,899,614	143,175	47,473	29,713	6,119,975
Net position	61,591	175,037	2,493	15,729	254,850
Off-balance sheet credit commitments	304,403	64,899	21,788	10,394	401,484

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(e) Interest rate risk

The Group's interest rate risk arises from the differences in timing between contractual maturities and repricing of interest-bearing assets and liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB. The PBOC establishes RMB benchmark interest rates which have a cap for RMB deposit rates and a floor for RMB loan rates.

The Group manages its interest rate risk by:

- regularly monitoring the macroeconomic factors that may impact on the PBOC benchmark interest rates;
- optimising the differences in timing between contractual maturities and repricing of interest-generating assets and interest-bearing liabilities; and
- managing the deviation of the pricing of interest-generating assets and interest-bearing liabilities from the PBOC benchmark interest rates.

(In RMB millions, unless otherwise stated)

The tables below summarise the contractual repricing or maturity date, whichever is earlier, of the Group's and the Bank's financial assets and liabilities.

31 December 2006
Group

	Effective interest rate (i)	Less than three months	Three months to one year	One to five years	More than five years	Non-interest-bearing	Total
Assets:							
Cash and balances with central banks	1.79%	617,383	—	—	—	86,274	703,657
Due from banks and other financial institutions (ii)	3.46%	190,918	52,356	2,450	—	—	245,724
Loans and advances to customers	5.42%	1,176,901	2,357,077	—	—	—	3,533,978
Investments	2.60%	350,141	726,705	1,404,686	373,789	5,604	2,860,925
Property and equipment	N/A	—	—	—	—	87,609	87,609
Others	N/A	—	—	—	—	76,858	76,858
Total assets	N/A	2,335,343	3,136,138	1,407,136	373,789	256,345	7,508,751
Liabilities:							
Due to banks and other financial institutions (iii)	2.02%	438,512	9,737	81	305	293	448,928
Due to customers (iv)	1.66%	4,216,311	1,468,208	572,380	3,954	97,028	6,357,881
Debt issued	3.32%	11,947	—	13,000	13,000	—	37,947
Others	N/A	—	—	—	—	192,994	192,994
Total liabilities	N/A	4,666,770	1,477,945	585,461	17,259	290,315	7,037,750
Interest rate mismatch	N/A	(2,331,427)	1,658,193	821,675	356,530	N/A	N/A

(i) Effective interest rate represents the ratio of interest income/expense to average interest-generating assets/interest-bearing liabilities

(ii) Includes reverse repurchase agreements

(iii) Includes repurchase agreements

(iv) Includes certificates of deposits

(In RMB millions, unless otherwise stated)

31 December 2006
Bank

	Effective interest rate (i)	Less than three months	Three months to one year	One to five years	More than five years	Non-interest-bearing	Total
Assets:							
Cash and balances with central banks	1.79%	617,204	—	—	—	86,041	703,245
Due from banks and other financial institutions (ii)	3.47%	153,866	52,356	2,450	—	—	208,672
Loans and advances to customers	5.41%	1,149,719	2,304,713	—	—	—	3,454,432
Investments	2.60%	348,003	729,637	1,400,756	371,630	11,709	2,861,735
Property and equipment	N/A	—	—	—	—	87,251	87,251
Others	N/A	—	—	—	—	73,313	73,313
Total assets	N/A	2,268,792	3,086,706	1,403,206	371,630	258,314	7,388,648
Liabilities:							
Due to banks and other financial institutions (iii)	2.14%	437,071	10,235	81	305	—	447,692
Due to customers	1.63%	4,120,527	1,462,092	571,154	3,944	93,686	6,251,403
Debt issued	3.24%	9,000	—	13,000	13,000	—	35,000
Others	N/A	—	—	—	—	189,963	189,963
Total liabilities	N/A	4,566,598	1,472,327	584,235	17,249	283,649	6,924,058
Interest rate mismatch	N/A	(2,297,806)	1,614,379	818,971	354,381	N/A	N/A

(i) Effective interest rate represents the ratio of interest income/expense to average interest-generating assets/interest-bearing liabilities

(ii) Includes reverse repurchase agreements

(iii) Includes repurchase agreements

(In RMB millions, unless otherwise stated)

31 December 2005
Group

	Effective interest rate (i)	Less than three months	Three months to one year	One to five years	More than five years	Non-interest-bearing	Total
Assets:							
Cash and balances with central banks	1.68%	480,660	—	—	—	73,213	553,873
Due from banks and other financial institutions (ii)	2.51%	186,768	34,484	145	—	—	221,397
Loans and advances to customers	5.11%	1,263,116	1,942,207	289	249	—	3,205,861
Investments	2.94%	212,131	524,125	1,341,246	222,883	5,424	2,305,809
Property and equipment	N/A	—	—	—	—	92,984	92,984
Others	N/A	—	—	—	—	76,207	76,207
Total assets	N/A	2,142,675	2,500,816	1,341,680	223,132	247,828	6,456,131
Liabilities:							
Due to banks and other financial institutions (iii)	1.92%	240,540	24,186	485	—	—	265,211
Due to customers (iv)	1.48%	3,898,487	1,357,413	403,898	4,828	77,944	5,742,570
Debt issued	3.41%	9,000	—	16,076	13,000	—	38,076
Others	N/A	—	—	—	—	150,398	150,398
Total liabilities	N/A	4,148,027	1,381,599	420,459	17,828	228,342	6,196,255
Interest rate mismatch	N/A	(2,005,352)	1,119,217	921,221	205,304	N/A	N/A

(i) Effective interest rate represents the ratio of interest income/expense to average interest-generating assets/interest-bearing liabilities

(ii) Includes reverse repurchase agreements

(iii) Includes repurchase agreements

(iv) Includes certificates of deposits

(In RMB millions, unless otherwise stated)

31 December 2005
Bank

	Effective interest rate (i)	Less than three months	Three months to one year	One to five years	More than five years	Non-interest-bearing	Total
Assets:							
Cash and balances with central banks	1.68%	480,539	—	—	—	73,033	553,572
Due from banks and other financial institutions (ii)	2.58%	181,427	37,589	145	—	—	219,161
Loans and advances to customers	5.11%	1,233,659	1,896,912	282	243	—	3,131,096
Investments	2.91%	198,489	530,006	1,341,073	223,649	11,800	2,305,017
Property and equipment	N/A	—	—	—	—	92,615	92,615
Others	N/A	—	—	—	—	73,364	73,364
Total assets	N/A	2,094,114	2,464,507	1,341,500	223,892	250,812	6,374,825
Liabilities:							
Due to banks and other financial institutions (iii)	1.98%	243,463	20,553	527	—	—	264,543
Due to customers	1.46%	3,835,105	1,353,874	400,117	4,817	77,941	5,671,854
Debt issued	3.19%	9,000	—	13,000	13,000	—	35,000
Others	N/A	—	—	—	—	148,578	148,578
Total liabilities	N/A	4,087,568	1,374,427	413,644	17,817	226,519	6,119,975
Interest rate mismatch	N/A	(1,993,454)	1,090,080	927,856	206,075	N/A	N/A

(i) Effective interest rate represents the ratio of interest income/expense to average interest-generating assets/interest-bearing liabilities

(ii) Includes reverse repurchase agreements

(iii) Includes repurchase agreements

41. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table summarises the carrying values and the fair values of receivables, held-to-maturity debt securities and subordinated bonds for which their fair values have not been presented or disclosed above:

	Group		Bank	
	Carrying value	Fair value	Carrying value	Fair value
31 December 2006:				
Receivables	1,106,163	1,106,246	1,106,163	1,106,246
Held-to-maturity debt securities	1,228,937	1,233,124	1,236,211	1,240,391
Subordinated bonds	35,000	34,263	35,000	34,263
31 December 2005:				
Receivables	1,074,461	1,074,461	1,074,461	1,074,461
Held-to-maturity debt securities	882,704	887,584	887,677	892,856
Subordinated bonds	35,000	35,037	35,000	35,037

Subject to the existence of an active market, such as an authorised securities exchange, the market value is the best reflection of the fair value of financial instruments. As there is no available market value for certain of the financial assets and liabilities held and issued by the Group, the discounted cash flow method or other valuation methods described below are adopted to determine the fair values of these assets and liabilities:

(a) The receivables relating to the restructuring of the Bank are non-transferable. The fair values of these receivables are estimated on the basis of the stated interest rates and the consideration of the relevant special clauses of the instrument evaluated in the absence of any other relevant observable market data, and the fair values approximate to their carrying amounts.

(b) The fair values of held-to-maturity debt securities and subordinated bonds are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated on the bases of pricing models or discounted cash flows.

All of the above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

Those financial instruments for which their carrying amounts are the reasonable approximations of their fair values because, for example, they are short term in nature or reprice to current market rates frequently, are as follows:

Assets	**Liabilities**
Cash and balance with central banks	Due to banks and other financial institutions
Due from banks and other financial institutions	Repurchase agreements
Reverse repurchase agreements	Due to customers
Loans and advances to customers	Other liabilities
Other assets	

42. POST BALANCE SHEET EVENTS

Subsequent to 31 December 2006, the following significant events occurred:

(i) Changes in corporate income tax rate

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the ''New Corporate Income Tax Law'') was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the future financial impact of the New Corporate Income Tax Law to the Group cannot be estimated at this stage. However, management of the Group expects that the Group will benefit from the New Corporate Income Tax Law.

(ii) Profit appropriation

The Board of Directors' meeting was held on 3 April 2007, and a final dividend of approximately RMB5,344 million, equivalent to RMB0.016 per share, was proposed.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 3 April 2007.