You should read the discussion and analysis set forth in this section in conjunction with Appendix I "Accountants' Report", which has been prepared in accordance with IFRS, Appendix II "Unaudited Supplementary Financial Information" and Appendix III "Unaudited Pro Forma Financial Information", in each case together with the accompanying notes. For further details on presentation of our financial information, see "Summary — Summary Financial Information — Basis of Presentation of Our Financial Information". Capital adequacy ratios discussed in this section are calculated in accordance with applicable CBRC guidelines and based on PRC GAAP Financial information. The capital adequacy ratios discussed in this section are not part of the Accountants' Report and have not been audited. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth in "Forward-looking Statements" and "Risk Factors".

OVERVIEW

We were the seventh largest commercial bank in China in terms of total assets[(1)]. For the year ended December 31, 2006, our operating income was RMB 17,927 million. As of December 31, 2006, we had RMB 706,723 million in total assets.

We provide a comprehensive range of commercial banking products and services. Our operating income primarily consists of net interest income and net fee and commission income. Our net interest income is primarily derived from loan products offered by our corporate and personal banking segments, with additional net interest income from our investments and our treasury operations. Our net fee and commission income is primarily derived from fee- and commission-based products, such as settlement services, guarantee services, short-term commercial papers underwriting and credit cards.

TRENDS AFFECTING OUR RESULTS OF OPERATIONS

China's Economic Condition

Our results of operations and financial condition are significantly affected by China's economic conditions and the economic measures undertaken by the PRC Government. China has experienced rapid economic growth over the past two decades largely as a result of the PRC Government's extensive economic reforms, which have focused on transforming China's centrally planned economy to a more market-based economy. The growth of China's overall economy has led to increased corporate activities. As banks have historically been, and will continue to be, a significant source of capital for companies in China, the growth in corporate activities has contributed to growth in corporate banking businesses at PRC banks. China's economic growth has also led to significant increases in personal wealth. Increased levels of personal wealth, coupled with China's relatively high savings rate, have led to a rapid growth in China's personal banking industry.

The PRC Government has from time to time implemented a series of macroeconomic policies, including raising the benchmark interest rates, increasing the PBOC statutory deposit reserve ratio applicable to banks and imposing commercial bank lending guidelines that had the effect of restricting loan extension to certain industries and otherwise affecting the growth of PRC banks.

Competition in China's Banking Sector

China's banking industry has become increasingly competitive. We face competition from other PRC commercial banks, including the Big Four commercial banks, other national and local commercial banks, and foreign-invested financial institutions. Many of these commercial banks, including the Big Four commercial banks, compete with us in substantially the same markets for loan, deposit and non-interest

(1) Based on relevant data as of December 31, 2005 because the relevant data of certain PRC commercial banks as of December 31, 2006 were not available as of the Latest Practical Date.

income products and services customers. In addition, as a result of PRC's entry into the WTO, many foreign banks have opened branches in the PRC or invested in PRC commercial banks, and we expect their reach in China to continue to expand. Moreover, the Closer Economic Partnership Agreement between Mainland China and Hong Kong has enabled smaller Hong Kong banks to establish their presence in the PRC. While the presence of foreign and Hong Kong banks in the PRC is still limited, their continuing expansion in China will result in increasing competition in China's banking market.

Interest Rate Environment

Historically, interest rates on deposits and loans were set by, and subject to restrictions established by, the PBOC. In recent years, as part of the overall reform of the banking system, the PBOC has implemented a series of initiatives designed to gradually liberalize interest rates and move towards a market-based interest rate regime.

Currently, interest rates on RMB-denominated loans are subject to minimums based on the PBOC benchmark rates, but generally are not subject to maximum rates. Interest rates on RMB-denominated deposits are subject to maximums set by the PBOC, but generally are not subject to minimum rates. Adjustments to benchmark rates have significantly affected the average rates of our loans and deposits, which in turn have had an impact on our net interest income. The PBOC adjusted the overall benchmark rates for RMB-denominated loans and deposits in October 2004. The PBOC also discontinued preferential rates for mortgage loans in March 2005, and adjusted the benchmark rates for loans in April 2006 and benchmark rates for loans and deposits in August 2006 and March 2007. In addition, in March 2005, the PBOC removed restrictions on interest rate on inter-bank deposits, symbolizing the liberalization of interest rate on inter-bank deposits.

As the PRC Government continues its policy of liberalization of interest rates, we expect market competition to play an increasingly important role.

Exchange Rate Environment

As of December 31, 2006, 8.8% of our total assets and 9.1% of our total liabilities were denominated in foreign currencies. As a result, fluctuations of the value of these foreign currencies against the Renminbi could materially affect our financial condition and results of operations. The value of the Renminbi is subject to changes in the PRC's political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC. On July 21, 2005, the PRC Government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2% against the U.S. dollar. Since then and up to December 31, 2006, the Renminbi has appreciated by approximately 5.7% against the U.S. dollar.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, our condensed results of operations.

	For the year ended December 31,		
	2004	2005	2006
	(in millions of RMB, except per share data)		
Interest income	17,795	22,511	29,490
Interest expense	(7,412)	(9,851)	(13,017)
Net interest income	10,383	12,660	16,473
Net non-interest income	763	995	1,454
Operating income	11,146	13,655	17,927
General and administrative expenses	(5,451)	(7,104)	(9,259)
Provisions for impairment losses charge	(1,634)	(1,098)	(1,666)
Profit before tax	4,061	5,453	7,002
Income tax	(1,633)	(2,369)	(3,144)
Net profit	2,428	3,084	3,858
Attributable to:			
Equity holder(s) of the Bank	2,427	3,083	3,858
Minority interests	1	1	—
Net profit	2,428	3,084	3,858
Profit appropriations[(1)]	1,258	271	3,000
Earning per share attributable to equity holder(s) of the Bank			
- Basic and diluted (Renminbi)	0.08	0.10	0.12

(1) Under MOF regulations, CITIC Group, as our sole shareholder during these periods, may appropriate any profit accumulated from the effective date of our restructuring, or December 31, 2005, to the date of our incorporation as a joint stock limited company, or December 31, 2006. We distributed RMB 3,000 million in dividends to CITIC Group in 2006. In addition, in accordance with our board resolution on March 8, 2007 and the extraordinary general meeting of shareholders held on the same day, we distributed RMB 726 million dividend in cash to CITIC Group from the retained earnings as of December 31, 2006.

Our net profit increased to RMB 3,858 million in 2006, from RMB 3,084 million in 2005 and RMB 2,428 million in 2004, representing a CAGR of 26.1% from 2004 to 2006. Our profit before tax increased at a CAGR of 31.3% to RMB 7,002 million in 2006 from RMB 5,453 million in 2005, which in turn increased from RMB 4,061 million in 2004. Our profit before tax increased from 2004 to 2006 primarily because:

- our net interest income increased at a CAGR of 26.0% from 2004 to 2006, primarily as a result of an increase in our interest-earning assets; and
- our net non-interest income increased at a CAGR of 38.0% from 2004 to 2006, primarily due to (i) an increase in net fee and commission income at a CAGR of 54.5%; and (ii) an increase in net gains arising from foreign currency dealings at a CAGR of 48.9%.

Net Interest Income

Net interest income historically has been the largest component of our operating income, representing 91.9%, 92.7% and 93.2% of our operating income for the years ended December 31, 2006, 2005 and 2004, respectively.

The following table sets forth, for the periods indicated, our interest income, interest expense and net interest income.

	For the year ended December 31,		
	2004	2005	2006
	(in millions of RMB)		
Interest income			
Loans and advances to customers (including rediscounted bills)	14,225	18,182	24,334
Less: Rediscounted bills	(379)	(383)	(1,046)
Loans and advances to customers[1]	13,846	17,799	23,288
Investments in debt securities	1,963	3,009	3,477
Balances with central bank	853	713	964
Amounts due from banks and other financial institutions	754	607	715
Sub-total	17,416	22,128	28,444
Interest expense			
Deposits from customers	(6,181)	(8,512)	(10,790)
Amounts due to banks and other financial institutions (including rediscounted bills)	(1,065)	(1,029)	(1,791)
Less: Rediscounted bills	379	383	1,046
Amounts due to banks and other financial institutions[1]	(686)	(646)	(745)
Others	(166)	(310)	(436)
Sub-total	(7,033)	(9,468)	(11,971)
Net interest income	10,383	12,660	16,473

(1) On our audited consolidated balance sheet, balances of (i) loans and advances to customers and (ii) amounts due to banks and other financial institutions exclude rediscounted bills. To present our balance sheet and our income statement on a consistent basis, on our summary income statement of net interest income in the table above and elsewhere in this section, we present these two categories in amounts net of interest income and interest expense relating to rediscounted bills.

Our net interest income increased by 30.1% to RMB 16,473 million in 2006 compared to RMB 12,660 million in 2005, which increased by 21.9% compared to RMB 10,383 million in 2004.

Our net interest income is affected by the difference between the yields on our interest-earning assets and the costs of our interest-bearing liabilities, as well as the average balances of these assets and liabilities. The table below sets forth, for the periods indicated, the average balances of our assets and liabilities, the related interest income or expense and average rates.

	For the year ended December 31,								
	2004			2005			2006		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate
	(in millions of RMB, except percentages)								
Assets									
Loans and advances to customers	285,491	13,846	4.85%	343,937	17,799	5.18%	437,124	23,288	5.33%
Investment in debt securities	61,571	1,963	3.19	98,715	3,009	3.05	103,329	3,477	3.37
Balances with central bank	47,471	853	1.80	46,651	713	1.53	62,446	964	1.54
Amounts due from banks and other financial institutions	34,318	754	2.20	27,757	607	2.19	26,165	715	2.73
Total interest-earning assets	428,851	17,416	4.06	517,060	22,128	4.28	629,064	28,444	4.52
Provisions	(17,330)	—	—	(14,849)	—	—	(10,390)	—	—
Non-interest-earning assets(1)	17,836	—	—	17,993	—	—	26,820	—	—
Total assets	429,357	—	—	520,204	—	—	645,494	—	—
Liabilities									
Deposits from customers	372,184	6,181	1.66%	457,427	8,512	1.86%	551,871	10,790	1.96%
Amounts due to banks and other financial institutions	39,897	686	1.72	34,461	646	1.87	38,898	745	1.91
Others(2)	3,678	166	4.51	6,279	310	4.94	9,330	436	4.67
Total interest-bearing liabilities	415,759	7,033	1.69%	498,167	9,468	1.90%	600,099	11,971	1.99%
Non-interest-bearing liabilities(3)	5,760	—	—	6,776	—	—	5,820	—	—
Total liabilities	421,519	—	—	504,943	—	—	605,919	—	—
Net interest income	—	10,383	—	—	12,660	—	—	16,473	—
Net interest spread(4)	—	—	2.37%	—	—	2.38%	—	—	2.53%
Net interest margin(5)	—	—	2.42	—	—	2.45	—	—	2.62

(1) Includes cash, available-for-sale equity investments, property and equipment, deferred tax assets and other assets.

(2) Consists of amounts due to central bank and subordinated debt and bonds issued.

(3) Consists of current and deferred tax liabilities and other liabilities and provisions.

(4) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.

(5) Calculated by dividing net interest income by the average balance of total interest-earning assets.

The following table sets forth, for the periods indicated, the allocation of changes in our interest income and interest expense due to changes in volume and changes in rate. Changes in volume are measured by changes in the average balances and changes in rate are measured by changes in the average rates. Changes in our interest income and interest expense caused by changes in both volume and rate have been allocated to changes in the rate.

	For the year ended December 31,					
	2005 vs. 2004			2006 vs. 2005		
	Increase/(decrease) due to		Net increase/ (decrease)	Increase/(decrease) due to		Net increase/ (decrease)
	Volume	Rate		Volume	Rate	
	(in millions of RMB)					
Assets						
Loans and advances to customers	2,833	1,120	3,953	4,827	662	5,489
Investment in debt securities	1,184	(138)	1,046	141	327	468
Balances with central bank	(15)	(125)	(140)	241	10	251
Amounts due from banks and other financial institutions	(143)	(4)	(147)	(35)	143	108
Change in interest income	3,859	853	4,712	5,174	1,142	6,316
Liabilities						
Deposits from customers	1,415	916	2,331	1,757	521	2,278
Amounts due to banks and other financial institutions	(93)	53	(40)	83	16	99
Others	117	27	144	151	(25)	126
Change in interest expense	1,439	996	2,435	1,991	512	2,503
Changes in net interest income	2,420	(143)	2,277	3,183	630	3,813

Interest Income

Interest income increased by 28.5% to RMB 28,444 million in 2006 compared to RMB 22,128 million in 2005, primarily due to a 21.7% increase in the average balance of interest-earning assets, particularly in loans and advances to customers, coupled with an increase in the average yield to 4.52% from 4.28%.

Interest income increased by 27.1% to RMB 22,128 million in 2005 compared to RMB 17,416 million in 2004, primarily due to a 20.6% increase the average balance of interest-earning assets, particularly in loans to customers and investment in debt securities, coupled with an increase in the average yield to 4.28% from 4.06%.

Interest Income from Loans and Advances to Customers

Interest income from loans to customers has been the largest component of our interest income, representing 81.9%, 80.4% and 79.5% of our total interest income for the years ended December 31, 2006, 2005 and 2004, respectively.

The following table sets forth, for the periods indicated, the average balance, interest income and average yield for each component of our loans to customers.

	For the year ended December 31,								
	2004			2005			2006		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
	(in millions of RMB, except percentages)								
Corporate loans	231,077	11,449	4.95%	270,077	14,482	5.36%	340,606	19,320	5.67%
Discounted bills	30,096	1,109	3.68	38,663	1,345	3.48	54,750	1,571	2.87
Personal loans	24,318	1,288	5.30	35,197	1,972	5.60	41,768	2,397	5.74
Total loans to customers	285,491	13,846	4.85%	343,937	17,799	5.18%	437,124	23,288	5.33%

Interest income from loans to customers increased by 30.8% to RMB 23,288 million in 2006 compared to RMB 17,799 million in 2005, due to primarily an increase in the average balance, and, to a lesser extent, an increase in the average yield on loans to 5.33% from 5.18%. Interest income from loans to customers increased by 28.5% to RMB 17,799 million in 2005 compared to RMB 13,846 million in 2004, due to primarily an increase in the average balance, and, to a lesser extent, an increase in the average yield to 5.18% from 4.85%.

The largest component of our interest income from loans has been interest income from corporate loans, representing 83.0%, 81.4% and 82.7% of our total interest income from loans to customers in 2006, 2005, and 2004, respectively.

2006 Compared to 2005. Interest income from corporate loans increased by 33.4% to RMB 19,320 million in 2006 compared to RMB 14,482 million in 2005 due to a combination of an increase in the average balance and an increase in the average yield to 5.67% from 5.36%. The average balance of corporate loans increased by 26.1% in 2006 compared to 2005, reflecting, among other reasons, the continued growth in China's corporate activities and increasing demand for capital. The average yield on corporate loans increased, reflecting, among others, (i) increases in the PBOC benchmark rates on customer loans in April and August 2006; and (ii) an increase in the average yield of foreign currency-denominated loans, reflecting the continued increase in LIBOR, which in turn reflected continuous interest rate increases by the United States Federal Reserve Bank. In addition, we believe the increase in the average yield on corporate loans was also attributable to the further implementation of our product pricing policies.

Interest income from discounted bills increased by 16.8% to RMB 1,571 million in 2006 compared to RMB 1,345 million in 2005, reflecting an increase of 41.6% in the average balance, which was partially offset by a decrease in the average yield to 2.87% from 3.48%. We experienced a higher growth rate in the average balance of discounted bills from the second half of 2005 through the first half of 2006, reflecting, among other, our increased focus on and increased market demand for discounted bills following a reduction of the interest rate on surplus deposit reserves in March 2005. We had subsequently restricted the issuance of discounted bills in the second half of 2006 as we increased our position in higher-yielding asset categories, such as corporate loans and personal loans. We believe that the decrease in the average yield reflected, among other reasons, general interest rate declines on discounted bills as a result of greater liquidity in the market.

Interest income from personal loans increased by 21.6% to RMB 2,397 million in 2006 compared to RMB 1,972 million in 2005, primarily due to a combination of a 18.7% increase in the average balance, and an increase in the average yield to 5.74% from 5.60%. The increase in the average balance of personal loans reflected a continuing increase in the average balance of residential mortgage loans, which was partially offset by decreases in individual commercial loans and automobile loans. In recent years, we have sought to expand residential mortgage loans and restrict lending on individual commercial loans, personal consumption loans and automobile loans. The increase in the average yield on personal loans reflected the discontinuation of preferential rates for mortgage loans in March 2005 and increases in the PBOC benchmark rates in April and August 2006.

2005 Compared to 2004. Interest income from corporate loans increased by 26.5% to RMB 14,482 million in 2005 compared to RMB 11,449 million in 2004 due to a combination of an increase in the average balance and an increase in the average yield to 5.36% from 4.95%. The average balance of corporate loans increased by 16.9% in 2005 compared to 2004, reflecting, among other reasons, the continued growth in China's corporate activities and increasing demand for funding. The increase in the average yield on corporate loans was affected by (i) an increase in the PBOC benchmark rates in October 2004; and (ii) an increase in the average yield of foreign currency denominated loans, reflecting continuous increase in the LIBOR, which in turn reflects continuous interest rate increases by the United States Federal Reserve Bank. In addition, we believe the increase in the average yield was also attributable to the further implementation of our product pricing polices in 2005.

Interest income from discounted bills increased by 21.3% to RMB 1,345 million in 2005 compared to RMB 1,109 million in 2004, reflecting an increase of 28.5% in the average balance, which was partially offset by a decrease in the average yield to 3.48% from 3.68%. The average balance increased, reflecting, among other reasons, our increased focus on expanding bank acceptance bills, which generally bear lower risks than commercial acceptance bills. We believe that the decrease in the average yield was due to, among other reasons, greater liquidity in the market following a reduction by the PBOC of the interest rate on surplus deposit reserves from 1.62% to 0.99% in March 2005.

Interest income from personal loans increased by 53.1% to RMB 1,972 million in 2005 compared to RMB 1,288 million in 2004 due to a combination of a 44.7% increase in the average balance and an increase in the average yield to 5.60% from 5.30%. The average balance of personal loans increased primarily due to a continuing increase in the average balance of mortgage loans, which was partially offset by decreases in individual commercial loans, personal consumption loans and automobile loans. The average yield on personal loans was affected by an increase in the PBOC benchmark rates in October 2004, coupled with the discontinuation of preferential PBOC benchmark mortgage rates in March 2005.

Interest Income from Debt Investments

Interest income from debt investments represented 12.2%, 13.6% and 11.3% of our interest income in 2006, 2005 and 2004, respectively.

Interest income from debt investments increased by 15.6% to RMB 3,477 million in 2006 compared to RMB 3,009 million in 2005, due to an increase in the average yield to 3.37% from 3.05%, coupled with a 4.7% increase in the average balance. The average yield increased, reflecting, among other reasons, an increase in the average yield of foreign currency-denominated debt investments following continuous interest rate increases by the United States Federal Reserve Bank; which was partially offset by a decrease in the average yield of RMB-denominated debt investments. The increase in average balance of debt investments was primarily attributable to an increase in the average balance of RMB-denominated debt investments.

Interest income from debt investments increased by 53.3% to RMB 3,009 million in 2005 compared to RMB 1,963 million in 2004, primarily due to an increase of 60.3% in the average balance of debt investments to RMB 98,715 million in 2005 from RMB 61,571 million in 2004, which was partially offset by a decrease in the average yield to 3.05% from 3.19%. The increase in the average balance of debt investments from 2004 through 2005 was attributable to, among other reasons, an increase in investment in debt securities in the fourth quarter of 2004. The average yield on debt investments decreased from 2004 through 2005 reflected, among other reasons, the maturity in 2004 and 2005 of those PRC Government bonds in our investment portfolio that had higher yields than the remaining portfolio. The decrease in average yield on debt investments was partially offset by an increase in the average yield of foreign currency-denominated investments following interest rate increases in the United States since June 2004.

Interest Income from Balances with Central Bank

Our interest-earning balances with central bank primarily consist of statutory deposit reserve funds and surplus deposit reserve funds deposited at the PBOC. Statutory deposit reserve funds represent the minimum level of cash deposits, calculated as a percentage of total deposits from customers (as defined by the PBOC) that we are required to maintain at the PBOC. Surplus deposit reserves are deposits with the PBOC in excess of statutory deposit reserves, part of which we maintain for settlement purposes. The PBOC increased the minimum deposit ratio from 6.5% to 7.0% in September 2003, from 7.0% to 7.5% in April 2004, from 7.5% to 8.0% in July 2006, from 8.0% to 8.5% in August 2006 and from 8.5% to 9.0% in November 2006.

Interest income from balances with central bank increased by 35.2% to RMB 964 million in 2006 compared to RMB 713 million in 2005, primarily due to a 33.9% increase in the average balance. The increase in the average balance reflected (i) the increases in minimum deposit ratio in 2006 and (ii) an increase in the balance of statutory deposit reserves in line with an increase in deposits from customers.

Interest income from balances with central bank decreased by 16.4% to RMB 713 million in 2005 compared to RMB 853 million in 2004 primarily due to a decrease in the average yield to 1.53% from 1.80%, and secondarily due to a decrease of 1.7% in the average balance. The decrease in the average yield reflected a reduction by the PBOC of the interest rate on surplus deposit reserves from 1.62% to 0.99% in March 2005. The decrease in the average balance reflected, among other reasons, reduction in the level of our surplus deposit reserves as part of our effort to enhance our liquidity management following the reduction of the interest rate on surplus deposit reserves in March 2005, and an increase in our position in higher-yielding discounted bills.

Interest Income from Amounts Due from Banks and Other Financial Institutions

Interest income from amounts due from banks and other financial institutions primarily consists of interest income on inter-bank deposits, balances under reverse repurchase agreements and money market placements.

Interest income from amounts due from banks and other financial institutions increased to RMB 715 million in 2006 compared to RMB 607 million in 2005, primarily due to an increase in the average yield to 2.73% from 2.19%, which was partially offset by a 5.7% decrease in the average balance. The average yield increased primarily due to (i) an increase in the average yield of foreign currency denominated assets, reflecting continuous interest rate increases by the United States Federal Reserve Bank; and (ii) an increase in the average yield of RMB-denominated assets, reflecting an increase in market interest rates on RMB-denominated assets. The decrease in the average balance reflected our increased position in higher-yielding asset categories, such as corporate loans and personal loans.

Interest income from amounts due from banks and other financial institutions decreased by 19.5% to RMB 607 million in 2005 compared to RMB 754 million in 2004, primarily due to a decrease of 19.1% in the average balance. The decrease in the average balance reflected, among others, decreased demand for funds by other financial institutions attributable to increased liquidity in the market.

Interest Expense

Interest expense increased by 26.4% to RMB 11,971 million in 2006 compared to RMB 9,468 million in 2005, primarily due to an increase in the average balance of interest-bearing liabilities, particularly deposits from customers, coupled with an increase in the average cost of interest-bearing liabilities to 1.99% from 1.90%.

Interest expense increased by 34.6% to RMB 9,468 million in 2005 compared to RMB 7,033 million in 2004, primarily due to a 19.8% increase in the average balance of interest-bearing liabilities, particularly deposits from customers, coupled with an increase in the average cost of interest-bearing liabilities to 1.90% from 1.69%.

Interest Expense on Deposits from Customers

Deposits from customers historically have been our primary source of funding. Interest expense on deposits from customers represented 90.1%, 89.9% and 87.9% of our total interest expense in 2006, 2005 and 2004, respectively.

The following table sets forth, for the periods indicated, the average balance, interest expense and average cost for corporate and personal deposits by product type.

	For the year ended December 31,								
	2004			2005			2006		
	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost
	(in millions of RMB, except percentages)								
Corporate deposits									
Time	177,074	4,172	2.36%	220,949	5,512	2.49%	252,889	6,854	2.71%
Demand	158,015	1,369	0.87	173,592	1,657	0.95	214,347	2,116	0.99
Subtotal	335,089	5,541	1.65%	394,541	7,169	1.82%	467,236	8,970	1.92%
Personal deposits									
Time	30,903	599	1.94%	55,262	1,289	2.33%	72,299	1,727	2.39%
Demand	6,192	41	0.66	7,624	54	0.71	12,336	93	0.75
Subtotal	37,095	640	1.73%	62,886	1,343	2.14%	84,635	1,820	2.15%
Total deposits from customers	372,184	6,181	1.66%	457,427	8,512	1.86%	551,871	10,790	1.96%

Interest expense on deposits from customers increased by 26.8% to RMB 10,790 million in 2006 compared to RMB 8,512 million in 2005 primarily due to an increase of 20.6% in the average balance.

Interest expense on deposits from customers increased by 37.7% to RMB 8,512 million in 2005 compared to RMB 6,181 million in 2004 primarily due to (i) an increase of 22.9% in the average balance, and (ii) an increase in the average cost to 1.86% from 1.66%.

2006 compared to 2005. Interest expense on corporate deposits increased by 25.1% to RMB 8,970 million in 2006 compared to RMB 7,169 million in 2005 primarily due to an increase in the interest expense on corporate time deposits. Interest expense on corporate time deposits increased primarily due to a 14.5% increase in the average balance, coupled with an increase in the average cost to 2.71% from 2.49%. Interest expense on corporate demand deposits increased by 27.7% primarily due to a 23.5% increase in the average balance, coupled with an increase in the average cost to 0.99% from 0.95%. The average cost on corporate time deposits increased, reflecting, among others, (i) an increase in the PBOC benchmark rates in August 2006, and (ii) an increase in the average cost of foreign currency denominated deposits following continuous interest rate increases by the United States Federal Reserve Bank, which were partially offset by a decrease of daily average negotiated deposits, which historically had a higher average cost than other deposits, as a percentage of our daily average corporate deposits to 10.2% in 2006 from 12.6% in 2005. The average cost on corporate demand deposits increased, reflecting, among others, an increase in the average cost of foreign currency denominated deposits following continuous interest rate increases by the United States Federal Reserve Bank.

Interest expense on personal deposits increased by 35.5% to RMB 1,820 million in 2006 compared to RMB 1,343 million in 2005 primarily due to a 34.6% increase in the average balance. The average cost of personal deposits increased slightly to 2.15% from 2.14%, reflecting, among others, an increase in personal demand deposits, which had lower average cost than RMB-denominated deposits, as a percentage of our total deposits.

2005 Compared to 2004. Interest expense on corporate deposits increased by 29.4% to RMB 7,169 million in 2005 compared to RMB 5,541 million in 2004 primarily due to an increase in the interest expense on corporate time deposits. Interest expense on corporate time deposits increased primarily due to a 24.8% increase in the average balance, coupled with an increase in the average cost to 2.49% from 2.36%. Interest expense on corporate demand deposits increased by 21.0% to RMB 1,657 million in 2005 compared to RMB 1,369 million in 2004 primarily due to an 9.9% increase in the average balance, coupled with an increase in the average cost to 0.95% from 0.87%. The average cost on corporate time and demand deposits increased, reflecting, among others, (i) an increase in the PBOC benchmark rates in October 2004; and (ii) an increase in corporate time deposits, which carry a higher average cost than corporate demand deposits, as a percentage of corporate deposits to 56.0% from 52.8%. In 2005, we sought to reduce our negotiated deposits, which had a higher average cost than overall corporate deposits, in an effort to optimize the mix of our deposits base. The increase in corporate time deposits was partially offset by a decrease in average balance of negotiated deposits as a percentage of average balance of corporate deposits to 12.6% in 2005 from 14.5% in 2004.

Interest expense on personal deposits increased by 109.8% to RMB 1,343 million in 2005 compared to RMB 640 million in 2004 primarily due to an increase in the interest expense on personal time deposits. Interest expense on personal time deposits increased primarily due to an increase in the average balance, coupled with an increase in the average cost to 2.33% from 1.94%. The average cost on personal time deposits increased, reflecting, among others, (i) the average balance of personal time deposits increased at a higher rate compared to personal demand deposits following the PBOC benchmark rate increase in October 2004, as such rate increase contributed to a higher increase in the average cost of our personal time deposits than that of our personal demand deposits and (ii) an increase in foreign currency-denominated deposits, which had higher average cost than RMB-denominated deposits, as a percentage of our total deposits.

Amounts Due to Banks and Other Financial Institutions; Subordinated Debt/Bonds

The largest component of amounts due to banks and other financial institutions consists of deposits from banks and non-bank financial institutions, such as securities firms and insurance companies in China.

Interest expense on amounts due to banks and other financial institutions increased by 15.3% to RMB 745 million in 2006 compared to RMB 646 million in 2005, primarily due to a 12.9% increase in the average balance, coupled with an increase in the average cost to 1.91% from 1.87%. The increase in the average balance reflected, among others, the increase in the deposits by securities firms partially attributable to increased securities market activities. The average cost increased primarily due to an increase in the average cost of our foreign currency-denominated inter-bank deposits resulting from interest rate increases in the United States, which was partially offset by a decrease in the average cost on our RMB-denominated inter-bank deposits.

In addition, we incurred RMB 0.12 billion in interest expense from RMB 6.0 billion in subordinated bonds issued in June 2006.

Interest expense on amounts due to banks and other financial institutions decreased by 5.8% to RMB 646 million in 2005 compared to RMB 686 million in 2004 primarily due to a decrease of 13.6% in the average balance, which was partially offset by an increase in the average cost to 1.87% from 1.72%. The average balance decreased primarily due to our efforts to increase our position in lower-cost sources of funding and reduce our position in the product. The average cost increased primarily due to an increase in the average cost of our foreign currency-denominated inter-bank deposits reflecting interest rate increases in the United States, which was partially offset by a decrease in the average cost on our RMB-denominated inter-bank deposits.

Net Interest Margin and Net Interest Spread

Net interest margin is the ratio of net interest income to the average balance of interest-earning assets. In 2006 compared to 2005, our net interest income and the average balance of our interest-earning assets increased by 30.1% and 21.7%, respectively. As a result, our net interest margin increased to 2.62% from 2.45%.

In 2005 compared to 2004, our net interest income and average balance of our interest-earning assets increased by 21.9% and 20.6%, respectively. As a result, our net interest margin increased to 2.45% in 2005 from 2.42% in 2004.

Net interest spread is the difference between the average yield on interest-earning assets and the average cost on interest-bearing liabilities. Our net interest spread increased to 2.53% in 2006 compared to 2.38% in 2005, primarily because the average yield on our interest-earning assets increased at a higher rate than the average cost on our interest-bearing liabilities.

Our net interest spread increased to 2.38% in 2005 compared to 2.37% in 2004, primarily because the average yield on our interest-earning assets increased at a higher rate than the average cost on our interest-bearing liabilities.

Net Non-interest Income

Net non-interest income represented 8.1%, 7.3% and 6.8% of our operating income in 2006, 2005 and 2004, respectively. The following table sets forth, for the periods indicated, the principal components of our net non-interest income.

	For the year ended December 31,		
	2004	2005	2006
	(in millions of RMB)		
Net fee and commission income	318	418	759
Net gain arising from foreign currency dealings	227	266	503
Net gain/(loss) from trading securities	34	109	(49)
Net gain/(loss) arising from investment securities	11	(24)	45
Other operating income	173	226	196
Total net non-interest income	763	995	1,454

Our net non-interest income increased by 46.1% to RMB 1,454 million in 2006 compared to RMB 995 million in 2005, primarily as a result of increases in net fee and commission income and net gain arising from foreign currency dealings. Our net non-interest income increased by 30.4% to RMB 995 million in 2005 compared to RMB 763 million in 2004 due to increases in all components of non-interest income except for net (loss)/gain arising from investment securities.

Net Fee and Commission Income

The following table sets forth, for the periods indicated, the principal components of our net fee and commission income.

	For the year ended December 31,		
	2004	2005	2006
	(in millions of RMB)		
Fee and commission income			
Settlement fees	133	166	214
Guarantee fees	129	162	215
Agency fee for underwriting bonds and commission fee from bonds	37	113	132
Bank card fees	58	86	199
Commission for underwriting investment funds and agency fee for insurance services and other agency fees	24	24	54
Commission for consulting service and wealth management services	13	17	61
Others	55	40	90
Subtotal	449	608	965
Fee and commission expense	(131)	(190)	(206)
Net fee and commission income	318	418	759

Our net fee and commission income increased by 81.6% to RMB 759 million in 2006 compared to RMB 418 million in 2005, which increased by 31.4% compared to RMB 318 million in 2004.

Settlement fees primarily consist of international settlement fees, which represented 90.7% and 88.0% of total settlement fees in 2006 and in 2005, respectively. International settlement fees increased by 32.9% to RMB 194 million in 2006 from RMB 146 million in 2005, which increased by 29.2% from RMB 113 million in

2004. The increase in international settlement fees from 2004 through 2006 reflected an increased volume of international settlements. We believe the increase in the volume of our international settlement services reflected (i) increased level of China's international trade activities and (ii) our continued efforts to capitalize on our strength in international business.

We provide guarantee services to our corporate customers and receive a fee for this service. Guarantee fees increased by 32.7% to RMB 215 million in 2006 from RMB 162 million in 2005, which increased by 25.6% from RMB 129 million in 2004. The increase in guarantee fees from 2004 through 2006 reflected an increased business volume, which we believe was partially attributable to increased market demand for such services.

Agency fee for underwriting bonds and commission fee from bonds consist of fees and commissions for underwriting and distributing bonds issued by the PRC Government, enterprises and other financial institutions, and since 2005, underwriting commission for underwriting corporate short-term commercial papers. The increase in agency fee for underwriting bonds and commission fee from bonds of 16.8% to RMB 132 million in 2006 from RMB 113 million in 2005, was primarily attributable to RMB 83 million in underwriting commission from underwriting short-term commercial papers in 2006. We first began underwriting short-term commercial papers during the second half of 2005. The increase in agency fee for underwriting bonds and commission fee from bonds of 205.4% to RMB 113 million in 2005 from RMB 37 million in 2004 was primarily attributable to RMB 57 million in commission for underwriting short-term commercial papers in 2005.

Bank card fees primarily consist of commissions from merchants, fees charged to customers of other banks for the use of our ATMs, annual fees and others. Bank card fees increased by 131.4% to RMB 199 million in 2006 from RMB 86 million in 2005, which increased by 48.3% from RMB 58 million in 2004. The increase in bank card fees from 2004 through 2006 was primarily due to increases in fees associated with use of credit cards. Fees associated with the use of credit cards increased significantly from 2004 through 2006. Expansion of our credit card business is a key component of our strategy. As a result of our efforts, our bank card transaction volume increased due to an increased number of credit cards issued and an increasing level of usage of credit cards.

Commission for underwriting investment funds and agency fee for insurance services primarily consist of (i) commission for underwriting interests in open-ended investment funds, and (ii) various agency fee income, including insurance services, custody services and international travel services. Commission for distributing investment funds and agency fee for insurance services increased by 125.0% to RMB 54 million in 2006 from RMB 24 million in 2005, reflecting, among others, an increase of RMB 16 million in fees for providing custody services. Commission for distributing investment funds and agency fee for insurance services remained at RMB 24 million in 2005 and 2004, reflecting an increase of RMB 4 million in fees from international travel services, partially offset by a decrease of RMB 4 million in commissions for selling interests in open-ended investment funds.

We provide financial advisory services and personal wealth management services and receive commissions for such products and services. Commission for consulting services and wealth management services increased by 258.8% to RMB 61 million in 2006 from RMB 17 million in 2005, which increased by 30.8% from RMB 13 million in 2004. The increase in commission for consulting services and wealth management services from 2005 to 2006 reflected, among others, an increase of RMB 16 million in commission for providing wealth management services and an increase of RMB 28 million in commission for providing financial advisory services, which we believe were partially attributable to our increased efforts to expand financial advisory services and personal wealth management services.

Of the remaining components, the largest component primarily consists of fees and commissions collected for (i) various other retail banking services, including safe deposit box and proof of funds services, and (ii) entrusted loans.

Our fee and commission expense increased by 8.4% to RMB 206 million in 2006 from RMB 190 million in 2005, reflecting, among others, increased business volume of our bank card business, which was partially offset by a decrease of RMB 17 million in expenses for foreign exchange transactions which reflected lower fee rates charged by the PRC Government on settlement for foreign exchange transactions. Our fee and commission expense increased by 45.0% to RMB 190 million in 2005 from RMB 131 million 2004, primarily due to (i) increased business volume of our bank card business; and (ii) increased fees payable to China Foreign Exchange Trade System due to higher foreign exchange transaction volume.

Net Gains Arising from Foreign Currency Dealings

Net gains arising from foreign currency dealings primarily consist of (i) net realized gains or losses in foreign exchange transactions; and (ii) gains or losses from revaluation of foreign currency-denominated assets. Net gains arising from foreign currency dealings increased by 89.1% to RMB 503 million in 2006 from RMB 266 million in 2005, which increased by 17.2% from RMB 227 million in 2004. The increase in net gains from 2004 through 2006 reflected the continued increase in the volume of our foreign exchange transactions, which was partially offset by a loss in revaluation of U.S. dollar denominated assets, reflecting, among others, the appreciation of the Renminbi against the U.S. dollar in 2005. The growth rate in net gains arising from foreign currency dealings increased in 2006 compared to 2005 reflected, among others, that we became licensed as market maker for foreign exchange-to-Renminbi spot transactions in 2005.

Net Gains Arising from Trading Securities

Net gains arising from trading securities primarily consist of (i) realized gains or losses on our debt securities held for trading purposes; (ii) revaluation gains or losses on debt securities held for trading purposes and derivatives and (iii) realized gains or losses on our derivatives. We had RMB 49 million in net loss arising from trading securities in 2006 compared to RMB 109 million in net gain in 2005, primarily due to (i) an increase in losses on derivative transactions entered into for hedging purposes (we do not apply hedge accounting on our hedging activities), and (ii) a decrease in trading volume, reflecting general market declines in prices of debt securities, which in turn was attributable to increased market interest rates. Net gains from trading securities increased by 220.6% to RMB 109 million in 2005 from RMB 34 million in 2004 primarily due to (i) gains on trading of a portion of short-term commercial papers that we underwrote and elected to retain for trading purposes in 2005; and (ii) gains on revaluation of our RMB-denominated debt securities.

Net Gains and Losses Arising from Investment Securities

Net gains and losses arising from investment securities primarily represent net realized gains and losses from the disposal of available-for-sale securities and revaluation gains or losses of available-for-sale securities transferred from equity to profit and loss for disposal. We had RMB 45 million in net gain arising from investment securities in 2006 compared to RMB 24 million in net loss in 2005, primarily due to gains incurred on disposals of certain securities in 2006 and losses incurred on disposals of certain securities in 2005.

We had RMB 24 million in net loss arising from investment securities in 2005 compared to a net gain of RMB 11 million in 2004 primarily due to losses resulted from disposal of part of our U.S. dollar-denominated fixed-rate debt securities in our efforts to adjust the structure of our foreign currency-denominated asset portfolio.

Other Operating Income

Other operating income primarily consists of remittance fees, net gain and loss on disposal of assets and recoveries on non-credit assets previously written off. Other operating income decreased by 13.3% to RMB 196 million in 2006 from RMB 226 million in 2005, primarily due to (i) a decrease of RMB 14 million in net gain on disposal of fixed assets, and (ii) a decrease of RMB 6 million in recoveries of non-credit assets. Other income increased by 30.6% to RMB 226 million in 2005 from RMB 173 million in 2004, primarily due to changes in recoveries on non-credit assets previously written off from 2004 through 2005. Recoveries on non-credit assets previously written off were RMB 19 million in 2006, RMB 25 million in 2005 and nil in 2004.

General and Administrative Expenses

The following table sets forth, for the periods indicated, the principal components of our general and administrative expenses.

	For the year ended December 31,					
	2004		2005		2006	
	Amount	% of Subtotal	Amount	% of Subtotal	Amount	% of Subtotal
	(in millions of RMB except percentages)					
Staff costs	1,581	36.3%	2,086	37.2%	2,914	41.0%
Other general and administrative expenses	1,580	36.2	2,125	37.8	2,602	36.6
Property, equipment and amortization expense	1,198	27.5	1,402	25.0	1,595	22.4
Subtotal	4,359	100.0%	5,613	100.0%	7,111	100.0%
Business tax and surcharges	792		991		1,398	
Management fee to CITIC Group	300		500		750	
Total general and administrative expenses	5,451		7,104		9,259	
Cost-to-income ratio	48.9%		52.0%		51.6%	
Adjusted cost-to-income ratio (excluding management fee to CITIC Group and business tax and surcharges)	39.1%		41.1%		39.7%	

Our general and administrative expenses increased by 30.3% to RMB 9,259 million in 2006 compared to RMB 7,104 million in 2005, which increased by 30.3% compared to RMB 5,451 million in 2004. The increase from 2004 through 2006 was primarily due to increases in staff costs and other general and administrative expenses as well as all other components of general and administrative expenses.

In recent years, we have increased our focus to control cost and improve our cost structure. To that end, we have:

- increased focus on the management of capital expenditure and other expenses;
- made disposals of certain idle land and buildings; and
- implemented procurement procedures based on competitive bidding.

As a result of our efforts, our property, equipment and amortization expense, as a percentage of business management expenses, decreased to 22.4% in 2006, 25.0% in 2005 from 27.5% in 2004. Our adjusted cost-to-income ratio (excluding management fee to CITIC Group and business tax and surcharges) were 39.7%, 41.1% and 39.1% in 2006, 2005 and 2004, respectively.

Staff Costs

Staff costs represented 41.0%, 37.2% and 36.3% of our business management expenses in 2006, 2005 and 2004, respectively.

The following table sets forth, for the periods indicated, the components of our staff costs.

	For the year ended December 31,		
	2004	2005	2006
	(in millions of RMB)		
Salaries, bonuses and staff welfare expenses	1,215	1,661	2,349
Contributions to defined contribution retirement schemes	107	125	169
Housing fund	63	67	94
Supplementary retirement benefits	9	—	6
Others[(1)]	187	233	296
Total staff costs	1,581	2,086	2,914

(1) Primarily consists of staff education fees, union fees, contribution to provident housing fund, supplemental retirement insurance and supplemental medical insurance for retirees.

Staff costs increased by 39.7% to RMB 2,914 million in 2006 from RMB 2,086 million in 2005, which increased by 31.9% from RMB 1,581 million in 2004. Staff costs increased from 2004 through 2006 due to a combination of an increase in salaries, bonuses and staff welfare expenses per employee and an increase in the number of employees. We have implemented a performance-based compensation structure, which ties employees' compensation to the performance of our bank. Based on such structure, and in line with the improvements in our bank's financial results, our salaries, bonuses and staff welfare expenses per employee, as calculated based on period-end amounts, have increased in recent years. The remaining components of staff costs consist primarily of contributions to defined retirement schemes and other employee benefit expenses which increased in line with employee compensation levels and the rate of mandatory contributions.

Other General and Administrative Expenses

Other general and administrative expenses primarily consist of advertising expenses, office and travel expenses, entertainment expenses, meeting-related expenses, communication expenses, mailing and shipping expenses, professional and legal fees, annual supervision fees and certain other expenses. Other general and administrative expenses increased by 22.4% to RMB 2,602 million in 2006 from RMB 2,125 million in 2005, which increased by 34.5% from RMB 1,580 million in 2004. Other general and administrative expenses increased from 2004 through 2006, generally consistent with the expansion of our business. In addition, since 2004, we have been required to pay an annual supervision fee to the CBRC, which totaled RMB 140 million in 2006, RMB 117 million in 2005 and RMB 91 million in 2004.

Property, Equipment and Amortization Expense

Property, equipment and amortization expense increased by 13.8% to RMB 1,595 million in 2006 from RMB 1,402 million in 2005, primarily due to increases in rent and property management expenses and electronic equipment operating expenses. Property, equipment and amortization expense increased by 17.0% to RMB 1,402 million in 2005 compared to RMB 1,198 million in 2004, primarily due to increases in depreciation, electronic equipment operating expenses and rent and property management expenses. The increases in electronic equipment operating expenses and rent and property management expenses from 2004 through 2006 reflected, among others, the expansion of branch outlets during this period. Depreciation increased by 12.6% to RMB 617 million in 2005 from RMB 548 million in 2004 primarily due to (i) revaluation surplus on bank premises; (ii) the recognition of depreciation expenses on certain repossessed assets we retained for self-use beginning the end of 2004; and (iii) increased purchases of automated service machines and other personal banking related equipments.

Business Tax and Surcharges

Business tax is levied primarily on interest income from loans and advances to customers and on fee and commission income. The business tax rate was 5% on such income in 2006, 2005 and 2004. In addition, educational surcharges and city construction tax are charged at rates equivalent to 3% and 7% of business tax paid, respectively. Business tax and surcharges increased by 41.1% in 2006 compared to 2005 and 25.1% in 2005 compared to 2004 due to an increase in taxable income.

Management Fee to CITIC Group

We paid an annual management fee for management services to CITIC Group, our parent, which totaled RMB 750 million in 2006, RMB 500 million in 2005 and RMB 300 million in 2004. We have not paid and will not pay management fee to CITIC Group after January 1, 2007.

Impairment Losses

Impairment losses charge consists primarily of provisions for impairment losses on loans and provisions for other assets. Provisions for impairment losses increased to RMB 1,666 million in 2006 from RMB 1,098 million in 2005, which decreased from RMB 1,634 million in 2004.

The following table sets forth, for the periods indicated, the principal components of our impairment losses charge.

	For the year ended December 31,		
	2004	2005	2006
	(in millions of RMB)		
Loans and advances to customers	1,589	1,055	1,535
Bad and doubtful debt	16	46	60
Investments	61	1	(4)
Amount due from banks and other financial institutions	(17)	(6)	(3)
Others	(15)	2	78
Total provisions for impairment losses	1,634	1,098	1,666

The largest component of our provisions for impairment losses consists of provisions for impairment losses on loans and advances to customers. Provisions for impairment losses on loans and advances to customers increased to RMB 1,535 million in 2006 from RMB 1,055 million 2005, which decreased by 33.6% from RMB 1,589 million in 2004. For details on changes in our provisions for loan loss, including provisions for impairment losses, see "Assets and Liabilities — Assets — Asset Quality of Our Loan Portfolio — Distribution of Allowance for Impairment Losses for Individually-assessed Impaired Corporate Loans by Legal Form of Borrowers — Changes to the Allowance for Impairment Losses."

Provisions for impairment losses on bad and doubtful debt reflect provisions on our receivables. Provisions for impairment losses on bad and doubtful debt increased to RMB 60 million in 2006 from RMB 46 million in 2005, which increased from RMB 16 million in 2004. The increase from 2004 through 2006 reflected an increase in legal fees reserve, for which we have made provisions in an effort to seek greater recoveries through legal proceedings.

Provisions for impairment losses on investments primarily reflect provisions on our investments. Provisions for impairment losses on investments totaled RMB −4 million in 2006, RMB 1 million in 2005, and RMB 61 million in 2004. The decrease in provisions for impairment losses from 2005 to 2006 was primarily attributable to recoveries on non-performing assets. The RMB 61 million in provisions for impairment losses on investments in 2004 was primarily attributable to a provision made in connection with a debt investment made in 2000.

Provisions for impairment losses on amounts due from banks and other financial institutions totaled RMB −3 million in 2006, RMB −6 million in 2005 and RMB −17 million in 2004, primarily attributable to recoveries on non-performing assets.

Charge and releases for impairment losses in the "others" category primarily reflect provisions on repossessed assets. We had a RMB 78 million in such charges in 2006 primarily due to charges on repossessed assets. We had RMB 2 million in impairment losses charge in 2005, compared to RMB −15 million in 2004 primarily due to recoveries on non-performing assets.

Income Tax Expense

Our income tax expense is the sum of (i) expected income tax charged at the statutory tax rate of 33%, (ii) taxes arising from certain non-deductible expenses, and (iii) tax credit of certain non-taxable income. The following table sets forth, for the periods indicated, the principal components of our income tax expenses.

	For the year ended December 31,		
	2004	2005	2006
	(in millions of RMB)		
Profit before tax	4,061	5,453	7,002
Expected PRC income tax charged at statutory tax rate of 33%(1)	1,340	1,799	2,311
Tax impact on non-deductible expenses:			
— Staff costs	343	485	654
— Others(2)	193	293	375
	536	778	1,029
Tax impact on non-taxable income:			
— Interest income from PRC Government bonds	(230)	(189)	(168)
— Others	(13)	(19)	(28)
	(243)	(208)	(196)
Income tax	1,633	2,369	3,144

(1) The provision for our PRC income tax of the Group is calculated based on the statutory tax rate of 33% in accordance with the relevant PRC income tax rules and regulations.

(2) The amounts primarily represent management fee to CITIC Group, entertainment expenses, depreciation and amortization charges exceeding the deductible amount, which are not tax deductible.

Our income tax expense increased by 32.7% to RMB 3,144 million in 2006 from RMB 2,369 million in 2005. This increase was primarily due to an increase in expected income tax resulting from increased profit before tax.

Our income tax expense increased by 45.1% to RMB 2,369 million in 2005 from RMB 1,633 million in 2004. This increase was primarily due to (i) an increase in expected income tax resulting from increased profit before tax; (ii) an increase in taxes on our non-deductible expenses, such as part of staff costs and certain other expenses, particularly management fee to CITIC Group; and (iii) a decrease in tax credit of non-taxable income, particularly interest income from PRC Government bonds.

Our effective tax rate in 2006, 2005 and 2004 was 44.9%, 43.4% and 40.2%, respectively. We have not been granted or applied for any preferential taxation rates in 2006, 2005 and 2004.

Net Profit

Our net profit increased by 25.1% to RMB 3,858 million in 2006 from RMB 3,084 million in 2005, which increased by 27.0% from RMB 2,428 million in 2004.

SUMMARY SEGMENT OPERATING RESULTS

Historically we manage our business primarily along geographical lines based on our branch structure. Since 2002, we have begun to assess the performance of our bank along business segments. See "Business — Our Principal Business Activities."

Summary Business Segment Information

Our principal business segments are corporate banking, personal banking and treasury operations. The financial results of our business segments for the years ended December 31, 2006, 2005 and 2004 in this subsection are presented as if we had managed our business in such segments throughout these periods. For a description of products and services included in these segments, see "Business — Our Principal Business Activities."

We use an intersegment fund transfer mechanism as a tool to assess the performance of our business segments. These funds are borrowed and lent between our business segments at transfer prices taking into account market rate. Intersegment interest expense and interest income recognized through the fund transfer mechanism are eliminated in our consolidated results of operations. On the other hand, the intersegment net interest income of each segment accounts for both the interest income generated from funds lent to other segments and the interest expense paid on funds borrowed from other segments.

The following table sets forth, for the period indicated, our operating income for each of our principal business segments.

	For the year ended December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Corporate banking	9,039	81.1%	11,009	80.7%	14,242	79.4%
Personal banking	1,167	10.5	1,699	12.4	2,386	13.3
Treasury operations	1,018	9.1	1,260	9.2	1,767	9.9
Others and unallocated	(78)	(0.7)	(313)	(2.3)	(468)	(2.6)
Total operating income	11,146	100.0%	13,655	100.0%	17,927	100.0%

Summary Geographical Segment Information

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branch that generated the revenue. The following table sets forth, for the periods indicated, the operating income attributable to each of these geographical regions.

	For the year ended December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Yangtze River Delta	3,612	32.5%	4,430	32.5%	5,639	31.5%
Pearl River Delta and West Strait	1,451	13.0	1,807	13.2	2,463	13.7
Bohai Rim	3,728	33.4	4,211	30.9	5,095	28.4
Central	743	6.7	1,175	8.6	1,657	9.2
Western	886	7.9	1,079	7.9	1,555	8.7
Northeastern	308	2.8	387	2.8	514	2.9
Head Office	404	3.6	561	4.1	918	5.1
Hong Kong	14	0.1	5	0.0	86	0.5
Total operating income	11,146	100.0%	13,655	100.0%	17,927	100.0%

LIQUIDITY

We fund our loan and investment portfolios principally through our customer deposits. Although a majority of deposits from customers have been short-term deposits, deposits from customers have been, and we believe will continue to be, a stable source of our funding. Customer deposits with remaining maturities of less than one year represented 92.6%, 89.8% and 86.4% of total deposits from customers in 2006, 2005 and 2004, respectively. For additional information about our short-term liabilities and sources of funds, see "Assets and Liabilities — Liabilities and Sources of Funds."

We manage liquidity risks in an effort to comply with regulatory liquidity guidelines and to ensure that we are able, even under adverse conditions, to meet all our payment obligations and fund our investment and lending opportunities on a timely basis. We identify, measure and monitor liquidity risk primarily through maturity gap analyses, which are prepared and presented to our management on a daily basis. In addition, in an effort to ensure that we can effectively manage liquidity risk under various adverse conditions and increase risk tolerance levels we conduct stress testing from time to time to analyze liquidity risk.

The following table sets forth, as of December 31, 2006, the remaining maturities of our assets and liabilities.

	As of December 31, 2006						
	Overdue/ Repayable on demand	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Undated	Total
	(in millions of RMB)						
Assets							
Loans and advances to customers, net	6,838	93,821	196,638	96,238	59,846	—	453,381
Investments	434	14,754	35,304	32,375	21,220	337	104,424
Cash and balances with central bank	32,727	15,970	—	—	—	41,923	90,620
Amounts due from banks and other financial institutions, net	10,060	29,563	2,935	692	—	—	43,250
Other assets	382	1,042	819	520	209	12,076	15,048
Total assets	50,441	155,150	235,696	129,825	81,275	54,336	706,723
Liabilities							
Deposits from customers	293,084	160,127	119,650	41,877	3,674	—	618,412
Amounts due to central bank	—	28	173	—	—	—	201
Amounts due to banks and other financial institutions	27,160	6,761	1,378	211	656	—	36,166
Subordinated debt/bonds issued	—	—	—	6,000	6,000	—	12,000
Other liabilities	205	6,673	1,137	33	48	154	8,250
Total liabilities	320,449	173,589	122,338	48,121	10,378	154	675,029
Long/(short) position	(270,008)	(18,439)	113,358	81,704	70,897	54,182	31,694

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

Market risk is the risk of financial loss arising from changes in the value of a financial instrument as a result of changes in interest rates, foreign currency exchange rates, equity prices and commodity prices and other market changes that affect market risk-sensitive instruments.

Interest Rate Risk

Interest rate risk is the exposure of a bank's financial condition to adverse movements in interest rates. Our primary source of interest rate risk is the mismatch between the repricing periods of our assets and liabilities. Repricing periods mismatch may cause net interest income to be affected by changes in the prevailing level of interest rates. We are exposed to interest rate risk through our day-to-day lending and deposit-taking activities as well as treasury operations. We manage the interest rate risk exposure of our assets and liabilities on our balance sheet primarily through adjusting the interest rate and maturity profile. For more information about our specific measures to manage the interest rate risk exposure, see "Risk Management — Market Risk Management — Interest Rate Risk Management".

Maturity Gap Analysis

The following table sets forth, as of December 31, 2006, the results of our gap analysis based on the earlier of (i) the next expected repricing dates and (ii) the final maturity dates for our assets and liabilities.

	As of December 31, 2006						
	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Interest-bearing total	Non-interest earning/ bearing	Total
	(in millions of RMB)						
Assets							
Loans and advances to customers, net[1]	223,558	225,435	3,557	831	453,381	—	453,381
Investments in debt securities	28,778	51,797	12,685	10,827	104,087	337	104,424
Cash and balances with central bank	88,031	—	—	—	88,031	2,589	90,620
Amounts due from banks and other financial institutions	39,622	2,935	693	—	43,250	—	43,250
Others[2]	—	—	—	—	—	15,048	15,048
Total assets	379,989	280,167	16,935	11,658	688,749	17,974	706,723
Liabilities							
Deposits from customers	489,467	107,450	14,021	3,284	614,222	4,190	618,412
Amounts due to banks and other financial institutions	33,921	1,378	211	656	36,166	—	36,166
Amounts due to central bank	28	173	—	—	201	—	201
Subordinated debt/bonds issued	6,000	—	—	6,000	12,000	—	12,000
Others[3]	—	—	—	—	—	8,250	8,250
Total liabilities	529,416	109,001	14,232	9,940	662,589	12,440	675,029
Re-pricing gap	(149,427)	171,166	2,703	1,718	26,160	5,534	31,694
Cumulative pricing gap	(149,427)	21,739	24,442	26,160	26,160	31,694	

(1) Includes RMB 6,838 million of overdue net loans. Overdue net loans are net loans on which either principal is overdue or interest is overdue by more than 90 days, but on which there has been no prepayment of principal.

(2) Includes available-for-sale equity investments, property and equipment, deferred tax assets and other assets.

(3) Consists of current and deferred tax liabilities and other liabilities and provisions.

Sensitivity Analysis

We use sensitivity analysis to measure the potential effect of changes in interest rates on our net interest income. The following table sets forth, as of December 31, 2006, the results of our interest rate sensitivity analysis based on our assets and liabilities at the same date.

	As of December 31, 2006	
	Change in interest rates (in basis points)	
	(100)[1]	100[1]
Changes in annualized net interest income (in millions of RMB)	211	(211)

(1) Interest rates for certain products are below 1%. This is for reference only.

Based on our assets and liabilities as of December 31, 2006, if interest rates increase (or decrease) by 100 basis points, our net interest income for the year following December 31, 2006 would immediately decrease (or increase) by RMB 211 million.

This sensitivity analysis, which is based on a static interest rate risk profile of assets and liabilities, is used for risk management purposes only. The analysis measures only the impact of changes in the interest rates within a year, as reflected by the repricing of our assets and liabilities within a year, on our annualized interest income, and is based on the following assumptions: (i) all assets and liabilities that reprice or are due within three months and in more than three months but within one year, as shown in the table under "— Maturity Gap Analysis", reprice or are due at the beginning of the respective periods (i.e., all the assets and liabilities that reprice or are due within three months reprice or are due immediately, and all the assets and liabilities that reprice or are due in more than three months but within one year reprice or are due in three months), (ii) there is a parallel shift in the yield curve and in interest rates, and (iii) there are no other changes to the portfolio. Actual changes in our net interest income resulting from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

Exchange Rate Risk

Exchange rate risk primarily results from mismatches in the currency denomination of assets and liabilities. All currency positions at our branch level are closed through back-to-back settlement, with exposure managed centrally at our head-office treasury and capital markets department. Our treasury and capital markets department seeks to control our exposures within limits set by the market risk subcommittee by closing positions in the markets or entering into derivative transactions for hedging purposes. For more information about our exchange rate risk management see "Risk Management — Market Risk Management — Exchange Rate Risk Management".

The following table sets forth, as of December 31, 2006, our assets and liabilities by currency.

	As of December 31, 2006			
	RMB	USD	Others	Total
	(in millions of RMB equivalent)			
Assets				
Loans and advances to customers, net	436,418	15,638	1,325	453,381
Investments	72,569	26,321	5,534	104,424
Cash and balance with central bank	87,300	2,938	382	90,620
Amounts due from banks and other financial institutions, net	34,741	6,733	1,776	43,250
Others[(1)]	13,763	977	308	15,048
Total assets	644,791	52,607	9,325	706,723
Liabilities				
Deposits from customers	562,106	48,903	7,403	618,412
Amounts due to banks and other financial Institutions	31,332	3,506	1,328	36,166
Amounts due to central bank	201	—	—	201
Subordinated debt/bonds issued	12,000	—	—	12,000
Others[(2)]	7,862	166	222	8,250
Total liabilities	613,501	52,575	8,953	675,029
Net position	31,290	32	372	31,694
Off-balance sheet credit commitments	165,687	23,010	6,875	195,572
Notional amount of hedging currency options	3,307	1,645	(800)	4,152

(1) Includes available-for-sale equity investments, property and equipment, deferred tax assets and other assets.

(2) Consists of current and deferred tax liabilities and other liabilities and provisions.

CASH FLOWS

The following table sets forth, for the periods indicated, our cash flows. For more information, see Section IV of the Accountants' Report in Appendix I to this prospectus.

	For the year ended December 31,		
	2004	2005	2006
	(in millions of RMB equivalent)		
Net cash flows from operating activities	30,256	(7,650)	(7,574)
Net cash flows from investing activities	(26,450)	4,331	(19,162)
Net cash flows from financing activities	8,486	8,315	10,102
Net increase/(decrease) in cash and cash equivalents	12,292	4,996	(16,634)
Effect of exchange rate changes on cash and cash equivalents	422	(1,201)	(469)

Cash Flows from Operating Activities

Our cash inflows from operating activities are primarily attributable to our customer deposits and interest income received. The net increase in the balance of our customer deposits in 2006, 2005 and 2004 was RMB 87,839 million, RMB 95,553 million and RMB 89,664 million, respectively. The interest income received in 2006, 2005 and 2004 was RMB 29,135 million, RMB 19,565 million and RMB 15,646 million, respectively.

Our cash outflows from operating activities are primarily attributable to our loan disbursements and interest payments. The net increase in the total balance of our loans in 2006, 2005 and 2004 was RMB 96,886 million, RMB 67,164 million and RMB 52,971 million, respectively. The interest paid (excluding interest expense on subordinated debt/bonds issued) in 2006, 2005 and 2004 was RMB 12,009 million, RMB 9,141 million and RMB 6,863 million, respectively.

Cash Flows from Investing Activities

Our cash inflows from our investing activities are primarily attributable to proceeds from disposal and redemption of our investments. Proceeds from disposal and redemption of investments in 2006, 2005 and 2004 was RMB 211,648 million, RMB 212,481 million and RMB 97,221 million, respectively. The increase in proceeds from disposal and redemption of investments in 2005 compared to 2004 primarily reflected increased amount of short-term commercial papers disposed of in 2005.

Our cash outflows from investing activities are primarily attributable to payments on acquisition of our investments. Payments on acquisition of investments in 2006, 2005 and 2004 was RMB 230,133 million, RMB 207,956 million and RMB 123,666, respectively. The increase in payments on acquisition of investments in 2005 compared to 2004 primarily reflected increased amount of short-term investments acquired in 2005.

Cash Flows from Financing Activities

Our cash inflows from financing activities are primarily attributable to (i) proceeds from capital injections, and (ii) in 2006 and in 2004, proceeds from issuances of subordinated debt/bonds. In 2006, 2005 and 2004, we received RMB 7,400 million, RMB 8,600 million and RMB 2,500 million, respectively, in capital injections from CITIC Group. We issued a series of subordinated debt and a series of subordinated bonds in 2004 and 2006, respectively, with an aggregate principal amount of RMB 6,000 million each.

Our cash outflows from financing activities are primarily attributable to interest paid on subordinated debt/bonds issued by us, and in 2006, dividends paid to CITIC Group. In 2006, 2005 and 2004, interest paid on subordinated debt/bonds issued totaled RMB 298 million, RMB 285 million and RMB 14 million, respectively. In 2006, we paid RMB 3,000 million in dividends to the CITIC Group. Under MOF regulations, CITIC Group, as our sole shareholder, may appropriate any profit accumulated from the effective date of our restructuring, or December 31, 2005, to the date of our incorporation, or December 31, 2006.

CAPITAL RESOURCES

Shareholders' Equity

Our total equity increased to RMB 31,694 million as of December 31, 2006 from RMB 23,225 million as of December 31, 2005, which increased from RMB 10,763 million as of December 31, 2004. From January 1, 2004 to December 31, 2006, our total equity increased significantly as a result of additional contributions to equity by CITIC Group, our parent, and increased net profits during this period. In 2006, 2005 and 2004, we received RMB 7,400 million, RMB 8,600 million and RMB 2,500 million, respectively, cash contribution to equity.

The following table sets forth the changes in our total equity for the period indicated.

	Shareholders' equity	Minority interest	Total equity
	(in millions of RMB)		
As of January 1, 2004	**5,399**	**3**	**5,402**
Net profit for 2004	2,427	1	2,428
Net change in fair value of available-for-sale investments	(174)	—	(174)
Realized on disposal of available-for-sale investments	(2)	—	(2)
Revaluation gain of properties held for own use	609	—	609
Capital injection and capitalization of earnings	2,500	—	2,500
As of December 31, 2004	**10,759**	**4**	**10,763**
Net profit for 2005	3,083	1	3,084
Net change in fair value of available-for-sale investments	138	—	138
Realized on disposal of available-for-sale investments	52	—	52
Revaluation gain of properties held for own use	588	—	588
Capital injection and capitalization of earnings	8,600	—	8,600
As of December 31, 2005	**23,220**	**5**	**23,225**
Net profit for 2006	3,858	—	3,858
Net change in fair value of available-for-sale investments	(14)	—	(14)
Revaluation gain of properties held for own use	123	—	123
Capital injection and capitalization of earnings	7,400	—	7,400
Appropriation of accrued welfare to capital reserve	102	—	102
Profit distribution	(3,000)	—	(3,000)
As of December 31, 2006	**31,689**	**5**	**31,694**

Capital Adequacy

We are subject to capital adequacy requirements promulgated by the CBRC, which require commercial banks in China to maintain a minimum core capital adequacy ratio of 4% and a minimum capital adequacy ratio of 8%. In March 2004, the CBRC introduced new guidelines which amended the method by which capital adequacy ratios are calculated. See "Regulation and Supervision — PRC Regulation and Supervision — Regulations Regarding Capital Adequacy." Our core capital, supplementary capital and risk-weighted assets are calculated based on PRC GAAP.

The following table sets forth, as of the dates indicated, certain information relating to our capital adequacy.

	As of December 31,	
	2005	2006
	(in millions of RMB, except percentages)	
Core capital:		
Paid up ordinary share capital	26,661	31,113
Reserves	(5,321)	(7)
Total core capital	21,340	31,106
Supplementary capital:		
General provisions for doubtful debt	2,961	2,663
Term subordinated debt/bonds(1)	6,000	10,800
Total supplementary capital	8,961	13,463
Total capital base before deductions	30,301	44,569
Deductions:		
Unconsolidated equity investments	142	158
Total capital base after deductions(2)	30,159	44,411
Risk-weighted assets(3)	372,000	471,957
Core capital adequacy ratio	5.72%	6.57%
Capital adequacy ratio	8.11%	9.41%

(1) Represents the RMB 6.0 billion of subordinated debt we issued in 2004 and RMB 6.0 billion of subordinated bonds we issued in 2006.

(2) Also referred to in this prospectus as "regulatory capital."

(3) For details on the calculation of risk-weighted assets, see "Regulation and Supervision — PRC Regulation and Supervision — Regulations Regarding Capital Adequacy — Capital Adequacy Guidelines — Risk-weighted Assets."

Our capital adequacy ratio was 6.05% as of December 31, 2004, and our core capital adequacy ratio was 3.33% as of the same date, as reported to the relevant PRC banking regulatory authority. Our capital adequacy ratios as of December 31, 2004 reported to the CBRC were based on our financial information prepared in accordance with the Accounting Regulations for Financial Enterprises jointly issued by the MOF and the PBOC in 1993. Therefore, such ratios may not be comparable to the capital adequacy ratios as of December 31, 2006 and 2005. Although our capital adequacy ratio as of December 31, 2004 was below the minimum requirement of 8%, no sanctions were imposed on us for our failure to meet this requirement. See "Risk Factors — Risks Relating to Our Business — We face risks relating to the PRC banking regulatory requirements and guidelines."

RETURNS ANALYSIS

The following table sets forth our return on average assets, or ROAA, and return on average equity, or ROAE, for the period indicated.

	For the year ended December 31,		
	2004	2005	2006
	(in percentages)		
Return on average assets (ROAA)(1)	0.54%	0.57%	0.59%
Return on average equity (ROAE)(2)	30.04%	18.15%	14.05%

(1) Calculated by dividing net profit (including profit attributable to minority interests) by the average of total assets as of the beginning and end of the period.

(2) Calculated by dividing net profit attributable to equity holders of our bank by average equity excluding minority interests. Average equity excluding minority interests is calculated as the average of total equity excluding minority interests as of the beginning and end of the period.

During the period from 2004 to 2006, our ROAA increased, reflecting an improved deployment of our assets. During the same period, our ROAE decreased, reflecting a higher rate of increase in our total equity than in the increase in our net profit. Our increase in our total equity was significantly attributable to additional contributions to equity by CITIC Group, our parent, during this period. See " — Capital Resources — Shareholders' Equity".

OFF-BALANCE SHEET COMMITMENTS

Our off-balance sheet commitments consist primarily of loan commitments, guarantees, letters of credit and acceptances. Loan commitments are our commitments to extend credit. We issue guarantees and letters of credit to guarantee the performance of our customers to third parties. Acceptances comprise undertakings by us to pay bills of exchange issued by our customers. The following table sets forth the contractual amounts of our off-balance sheet commitments as of the dates indicated.

	As of December 31,		
	2004	2005	2006
	(in millions of RMB)		
Credit commitments:			
Loan commitments	1,483	2,526	5,694
Guarantees and letters of credit	32,194	36,947	49,466
Acceptances	94,836	105,783	132,000
Credit card commitments	2,232	4,836	8,412
Subtotal	130,745	150,092	195,572
Capital commitments	38	10	105
Operating lease commitments	1,330	1,538	1,779
Underwriting obligations	310	550	950
Redemption obligations	13,302	14,662	15,590
Total off-balance sheet commitments	145,725	166,852	213,996

CAPITAL EXPENDITURES

Our capital expenditure in 2006, 2005 and 2004 was RMB 761 million, RMB 645 million and RMB 314 million, respectively. The increase in our capital expenditures from 2004 through 2006 was primarily due to our increased efforts to expand our distribution network, including branch outlets, automated service machines and self-service banking centers and establish or improve our information systems.

SIGNIFICANT ACCOUNTING POLICIES

We have identified certain accounting policies that are significant to the preparation of our financial statements. These significant accounting policies, which are important for the understanding of our financial condition and results of operations, are set forth in detail in Section V of the Accountants' Report in Appendix I to this prospectus. These accounting policies usually involve subjective assumptions and estimates, and complex judgements relating to accounting items such as asset values and impairment losses. In each case, the determination of these items requires management judgment based on information and financial data that may change in future periods. We set out below the accounting policies used in the preparation of our financial statements that we believe involve the most significant estimates and judgments.

Allowance for Impairment Losses on Loans and Advances

The impairment allowance of loans and receivables is measured as the difference between the respective asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for credit losses consists of two components: individual impairment allowances and collective impairment allowances.

We first assess whether objective evidence of impairment exists individually for financial assets that are individually significant and collectively for financial assets that are not individually significant. If we determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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. Impairment losses are recognised in the income statement.

Individual impairment allowances

All loans and advances in the corporate lending portfolios are considered individually significant and assessed individually for impairment. Individually impaired loans and advances are graded at a minimum at substandard.

Loans and advances which are assessed individually for impairment are evaluated in the light of objective evidence of loss events, for example:

- Significant financial difficulty of the borrower
- A breach of contract, such as default or delinquency in interest payments or principal repayments
- For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that we would not otherwise consider
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation

It may not be possible to identify a single, discrete event that caused the impairment but it may be possible to identify impairment through the combined effect of several events.

The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management makes judgments about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of us. Each impaired asset is assessed on its merits.

Collective impairment allowances

Loans and receivables, which include the following, are assessed for impairment losses on a collective basis:

- All homogeneous groups of loans (representing all the personal loan portfolios) which are all considered not individually significant
- Individually assessed loans with no objective evidence of impairment on an individual basis

The collective impairment loss is assessed after taking into account:

- Historical loss experience in portfolios of similar credit risk characteristics;
- The emergence period between a loss occurring and that loss being identified;
- The current economic and credit environments and whether in management's experience these indicate that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience; and

- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the environments in which we operates.

Impairment losses recognised on a collective basis represent an interim step pending the identification of impairment losses on individual assets (which are subject to individual assessment) in the pool of financial assets that are collectively assessed for impairment.

As soon as information is available that specifically identifies objective evidence of impairment on individual assets in a pool, those assets are removed from the pool of financial assets. 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 for impairment.

Valuation of Investments

We classify investments on our balance sheet into (i) receivables, (ii) held-to-maturity assets, (iii) assets at fair value through profit or loss and (iv) available-for-sale assets

- Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than those that we intends to sell immediately or in the near term, and those that are designated as available for sale upon initial recognition, or those where we may not recover substantially all of its initial investment, other than because of credit determination, which will be classified as available-for-sale;
- held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that we has the positive intent and ability to hold to maturity, other than those that meet the definition of receivables, or that we designated as at fair value through profit or loss or as available-for-sale;
- financial assets at fair value through profit or loss include trading assets of those financial assets held principally for the purpose of short term profit taking and financial assets that are designated by us upon recognition as at fair value through profit or loss; and
- available-for-sale assets are non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through profit or loss, receivables or held-to-maturity assets.

Subsequent to initial recognition, financial assets are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal except for receivables, held-to-maturity financial assets not designated at fair value through profit or loss, which are measured at amortised cost using the effective interest rate method. Financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost.

Gains and losses from changes in the fair value of financial instruments at fair value through profit or loss are included in the income statement when they arise. Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised at which time the cumulative gains or losses previously recognised in equity will be recognised in the income statement. For financial assets and carried at amortised cost, a gain or loss is recognised in the income statement when the financial asset is derecognised or impaired, and through the amortisation process.

The fair value of financial assets is based on their quoted market price in an active market at the valuation date without any deduction for transaction costs. A quoted market price is from an active market where price information is readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and that price information represents actual and regularly occurring market transactions on an arm's length basis. If a quoted market price is not available, the fair value of the financial assets is established using valuation techniques.

In estimating the fair value of a financial asset, we consider all factors, including but not limited to, interest rate, credit risk, foreign currency exchange price and market volatility, that are likely to affect the fair value of the financial asset.

We obtain market data in the same market where the financial instrument was originated or purchased.

Derivative financial instruments

We use derivative financial instruments to hedge our exposure to market risks arising from our investment activities. In accordance with our treasury policy, our derivative financial instruments are principally undertaken in response to customers' needs or for our own asset and liability management purposes. However, derivatives that do not qualify for hedge accounting are accounted for as financial assets and financial liabilities at fair value through profit or loss.

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

Valuation of Property and Equipment

Property and equipment are stated at cost upon initial recognition.

Subsequent to initial recognition, we adopt a revaluation policy to carry all classes of property at revaluation, being their fair value at the date of the revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Equipment is stated at cost less accumulated depreciation and impairment losses.

Increases in the carrying amount arising on revaluation of each property are credited to revaluation reserves in owner's equity. Decreases that offset previous increases of the same asset are charged against revaluation reserves; all other decreases are charged to the income statement.

Income Tax

Income tax in the income statement comprises of both current tax and movements in deferred tax balances. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets also arise from unused tax losses and unused tax credits.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

RECENT ACCOUNTING PRONOUNCEMENTS

In preparing our consolidated financial statements, we have adopted all IFRS in issue which are relevant to us for the years ended 31 December 2003, 2004 and 2005, except for IFRS 7 Financial Instruments: Disclosures ("IFRS 7") and the amendment to IAS 1 Presentation of Financial Statements: Capital

Disclosures ("IAS 1 Amendment") both of which were issued in August 2005 and are effective for the period beginning 1 January 2007.

IFRS 7 requires more detailed qualitative and quantitative disclosure primarily on fair value information and risk management. We have assessed the impact of IFRS 7 and concluded that IFRS 7 would only affect the level of details in the disclosure of the financial statements, and would not have financial impact nor result in a change in our accounting policies.

We have concluded that the disclosures required by IAS 1 Amendment on how we manage our capital and comply with external capital requirements would not have financial impact nor result in a change in our accounting policies.

INDEBTEDNESS

As of February 28, 2007, the latest practicable date, our indebtedness includes subordinated debt and bonds issued in 2004 and 2006 with an aggregate principal amount of RMB 12,000 million. See "Assets and Liabilities — Liabilities and Sources of Funds — Subordinated Debt/Bonds". In addition, as of February 28, 2007, we had contingent liabilities relating to guarantees and letter of credits amounting to RMB 49,868 million and had liabilities amounting to RMB 16,630 million that were secured by our assets that arose from our ordinary course of business.

In addition, as of February 28, 2007, we had amounts due to central bank, banks and other financial institutions (including the above secured liabilities), deposits from customers, credit commitments, acceptances, other commitments and contingencies, including outstanding litigation, that arose from our ordinary course of business.

Except as otherwise disclosed in this prospectus, as of February 28, 2007, we did not have any outstanding mortgages, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities.

Our directors have confirmed that there has not been any material change in the indebtedness or contingent liabilities of our bank since February 28, 2007.

PROPERTY

Particulars of our property interests are set out in Appendix V to this prospectus. Sallmanns(Far East) Limited has valued our property interests as at January 31, 2007. A summary of values and valuation certificates issued by Sallmanns(Far East) Limited are included in Appendix V to this prospectus.

The table below sets forth the reconciliation of aggregate amounts of land and buildings from our audited consolidated financial statements as of December 31, 2006 to the unaudited net book value of our property interests as of January 31, 2007:

	January 31, 2007 (except indicated otherwise)
	(RMB in thousands)
Net book value of property interests per audited accounts	7,253,427
Add: Land use right	191,088
Property purchase prepayment	187,772
Adjusted net book value of property interests as at 31 December 2006	7,632,287
Movements for the month ended 31 January 2007	(17,597)
Additions	3,719
Depreciation	(21,316)
Disposals	0
Net book value as at 31 January 2007	7,614,690
Valuation surplus as at 31 January 2007	146,578
Valuation as at 31 January 2007 per Appendix V Valuation Report	7,761,268

RULES 13.11 TO 13.19 OF THE HONG KONG LISTING RULES

We confirm that there are no circumstances which will trigger disclosure requirements under Rule 13.11 to Rule 13.19 of the Hong Kong Listing Rules.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2007

All statistics set forth in the table below do not give effect to the A Share Offering and are based on the assumptions that (i) the Global Offering is completed and (ii) the Over-allotment Option is not exercised.

Forecast consolidated net profit attributable to shareholders(1)	not less than RMB 5.7 billion
Forecast earnings per share	
(a) pro forma fully diluted(2)	RMB 0.16 (HK$0.16)
(b) weighted average(3)	RMB 0.17 (HK$0.17)

(1) The bases and assumptions on which the profit forecast has been prepared are set out in Appendix IV to this prospectus.

(2) The calculation of the forecast earnings per share on a pro forma fully diluted basis is based on the forecast consolidated net profit attributable to our shareholders for the year ending December 31, 2007 assuming that we had been listed since January 1, 2007 and a total of 35,998,590,400 shares were issued and outstanding during the entire year. This calculation assumes that the 4,885,479,000 H Shares to be issued pursuant to the Global Offering were issued on January 1, 2007 (assuming the Over-allotment Option is not exercised). The forecast consolidated net profit attributable to shareholders for the year ending December 31, 2007 is based on the audited consolidated financial statements for the year ended December 31, 2006 and a forecast of the consolidated results for the twelve months ending December 31, 2007.

(3) The calculation of the forecast earnings per share on a weighted average basis is based on the forecast consolidated net profit attributable to shareholders for the year ending December 31, 2007 and a weighted average number of 34,445,945,019 shares issued and outstanding during the year. This calculation assumes that the 4,885,479,000 H Shares to be issued in the Global Offering were issued on April 27, 2007 (assuming the Over-allotment Option is not exercised).

All statistics set forth in the table below are based on the assumption that (i) the Global Offering and the A Share Offering are both completed and (ii) the Over-allotment Option is not exercised.

Forecast consolidated profit attributable to shareholders(1)	not less than RMB 5.7 billion
Forecast earnings per share	
(a) pro forma fully diluted(2)	RMB 0.15 (HK$0.15)
(b) weighted average(3)	RMB 0.16 (HK$0.16)

(1) The bases and assumptions on which the profit forecast has been prepared are set out in Appendix IV to this prospectus.

(2) The calculation of the forecast earnings per share on a pro forma fully diluted basis is based on the forecast consolidated net profit attributable to our shareholders for the year ending December 31, 2007 assuming that we had been listed since January 1, 2007 and a total of 38,300,523,054 shares were issued and outstanding during the entire year. This calculation assumes that the 4,885,479,000 H Shares to be issued pursuant to the Global Offering and 2,301,932,654 A Shares to be issued in the A Share Offering were issued on January 1, 2007 (assuming the Over-allotment Option is not exercised). The forecast consolidated net profit attributable to shareholders for the year ending December 31, 2007 is based on the audited consolidated financial statements for the year ended December 31, 2006 and a forecast of the consolidated results for the twelve months ending December 31, 2007.

(3) The calculation of the forecast earnings per share on a weighted average basis is based on the forecast consolidated net profit attributable to shareholders for the year ending December 31, 2007 and a weighted average number of 36,016,304,556 shares issued and outstanding during the year. This calculation assumes that the 4,885,479,000 H Shares to be issued in the Global Offering and 2,301,932,654 A Shares to be issued in the A Share Offering were issued on April 27, 2007 (assuming the Over-allotment Option is not exercised).

DIVIDEND POLICY

Our board of directors decides whether to pay any dividend and in what amount based on our results of operations, cash flow, financial condition, capital adequacy ratios, future prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our board of directors deems relevant. Under the PRC Company Law and our articles of association, all of our shareholders have equal rights to dividends and distributions. We will pay dividends out of our net profit only after we have made good our accumulated losses, if any, and have made the following appropriations:

- appropriations to the statutory surplus reserve equivalent to 10% of our net profit available for appropriation, as determined under PRC GAAP; no further appropriations to the statutory surplus reserve are required once this reserve reaches an amount equal to 50% of our registered capital; and
- appropriations to a discretionary surplus reserve as approved by the shareholders in an annual general meeting.

In addition, according to recent MOF regulations, in principle, we are required to maintain a general reserve not less than 1% of our assets on which we bear risk prior to making a profit distribution. This general reserve will constitute part of our reserves. Financial institutions that did not meet this general reserve requirement as of July 1, 2005 are required to take necessary steps to meet this requirement in approximately three years, but not later than five years, from July 1, 2005. At an extraordinary general meeting of shareholders on March 8, 2007, our shareholders approved our dividend policies. To comply with the MOF's guideline by July 1, 2010, we will appropriate 40% to 45% of our net profit as general reserve in 2007, and 25% to 35% of our net profit as general reserve in 2008 and 2009. See note 26(f) in Section V of the Accountants' Report in Appendix I to this prospectus.

Under PRC law, dividends may be paid only out of distributable profits. Distributable profits means our net profit as determined under PRC GAAP or IFRS, whichever is lower, less any accumulated losses and appropriations to the statutory surplus reserve and general reserve which we are required to make. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. However, ordinarily we will not pay any dividends in a year in which we do not have any distributable profits in respect of that year. The payment of any dividend by us must also be approved at a general meeting of shareholders. Holders of our H Shares will be entitled to receive dividends in proportion to their shareholdings.

The CBRC has the discretionary authority to prohibit any bank that has a capital adequacy ratio below 8% or a core capital adequacy ratio below 4%, or has violated certain other PRC banking regulations, from paying dividends and other forms of distributions. See "Regulation and Supervision — PRC Regulation and Supervision — Regulations Regarding Capital Adequacy — CBRC Supervision of Capital Adequacy" and "— Principal Regulators — The CBRC." As of December 31, 2006, we had a capital adequacy ratio of 9.41% and a core capital adequacy ratio of 6.57%.

In 2006, we distributed RMB 3,000 million in dividends to CITIC Group. In addition, in accordance with our board resolution on March 8, 2007 and the extraordinary general meeting of shareholders held on the same day, we distributed RMB 726 million dividend in cash to CITIC Group from the retained earnings as of December 31, 2006.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted consolidated net tangible assets of us is prepared based on our audited consolidated net tangible assets as at December 31, 2006, as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, adjusted as described below. Our statement of unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, as a result, may not give a true picture of our financial position.

Our statement of unaudited pro forma adjusted consolidated net tangible assets has been prepared to show the effect on our audited consolidated net tangible assets as at December 31, 2006 as if the Global Offering had occurred on December 31, 2006 and without giving effect to the A Share Offering.

	Audited consolidated net tangible assets as at December 31 2006(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted consolidated net tangible assets(3)	Unaudited pro forma adjusted consolidated net tangible assets value per share(4)	
	RMB million	RMB million	RMB million	RMB	HK$(5)
Based on the offer price of HK$5.06 per Offer Share(6)	31,632	23,564	55,196	1.53	1.55
Based on the offer price of HK$5.86 per Offer Share(6)	31,632	27,321	58,953	1.64	1.66

(1) The consolidated net tangible assets attributable to our shareholders as of December 31, 2006 is compiled based on the Accountants' Report set out in Appendix I to the prospectus, which is based on the audited consolidated net assets attributable to our shareholders as of December 31, 2006 of RMB 31,689 million with an adjustment for intangible assets of RMB 57 million as of December 31, 2006.

(2) The estimated net proceeds from the Global Offering are based on the offer price of HK$5.06, or RMB 5.00, per H Share to HK$5.86, or RMB 5.80, per H Share and the assumption that there are 4,885,479,000 newly issued H Shares in the Global Offering, after deduction of the underwriting fees and other related expenses payable by us and takes no account of any shares which may be issued upon the exercise of the Over-allotment Option.

(3) The unaudited pro forma adjusted consolidated net tangible assets do not take into account the effect of the net profit for the period from and including January 1, 2007 to the date immediately preceding the date of the Global Offering.

(4) The unaudited pro forma adjusted consolidated net tangible assets value per share is arrived at after the adjustments referred to in note 1 above and on the basis that 35,998,590,400 shares are issued and outstanding following the completion of the Global Offering and that the Over-allotment Option is not exercised. If the Over-allotment Option is exercised in full, these per share values will increase. Had effect been given to the A Share Offering in this calculation, our unaudited pro forma adjusted consolidated net tangible assets per share would have been HK$1.75 or RMB 1.73 based on the offer prices of HK$5.06 per H Share and RMB 5.00 per A Share and HK$1.90 or RMB 1.88 based on the offer prices of HK$5.86 per H Share and RMB 5.80 per A Share. This calculation is based on the assumption that there were 2,301,932,654 newly issued A Shares in the A Share Offering and the resulting net proceeds (after deduction of the estimated underwriting fees and other related expenses payable by us) of RMB 11,187 million (based on the offer price of RMB 5.00 per A Share) and RMB 12,977 million (based on the offer price of RMB 5.80 per A Share) from the A Share Offering.

(5) The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB 0.9891 to HK$1.00, the exchange rate set by the PBOC prevailing on April 11, 2007. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate, or at any other rate or at all.

(6) A dividend of RMB 726 million from our retained earnings as at December 31, 2006 was declared at our extraordinary shareholders' general meeting on March 8, 2007 which was paid to CITIC Group. Had effect been given to the above A Share Offering as well as the dividend declaration in the above calculation, the unaudited pro forma adjusted consolidated net tangible asset value per share would have been reduced to HK$1.73 or RMB 1.71 based on the offer price of HK$5.06 per H Share and RMB 5.00 per A Share and HK$1.88 or RMB 1.86 based on the offer price of HK$5.86 per H Share and RMB 5.80 per A Share.

Details of the valuation of our properties as of January 31, 2007 are set forth in Appendix V to this prospectus. The unaudited net book value of properties as of January 31, 2007 was not substantially different from the valuation of our properties as included in Appendix V to this prospectus.

NO MATERIAL ADVERSE CHANGE

Our directors confirm that, other than our special dividend approved by our shareholders as disclosed in "— Dividend Policy," there has been no material adverse change in our financial or trading position since December 31, 2006.

WORKING CAPITAL

Rule 8.21A(1) and Paragraph 36 of Part A of Appendix 1A of the Hong Kong Listing Rules require this prospectus to include a statement by our directors that, in their opinion, the working capital available to our bank is sufficient or, if not, how it is proposed to provide the additional working capital our directors consider to be necessary. We are of the view that the traditional concept of "working capital" does not apply to banking businesses such as ours. We are regulated in the PRC by, among others, the PBOC and the CBRC. These regulatory authorities impose minimum capital adequacy and liquidity requirements on commercial banks operating in the PRC. Rule 8.21A(2) of the Hong Kong Listing Rules provides that such a working capital statement will not be required to be made by an issuer whose business is entirely or substantially that of the provision of financial services, provided that the Hong Kong Stock Exchange is satisfied that the inclusion of such a statement would not provide significant information for investors and that the issuer's solvency and capital adequacy are subject to prudential supervision by another regulatory body. In view of the above, pursuant to Rule 8.21A(2) of the Hong Kong Listing Rules, we are not required to include a working capital statement from our directors in this prospectus.