The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in "Appendix X — Documents Delivered to the Registrar of Companies and Available for Inspection", a copy of the Accountants' Report is available for inspection.

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10 Chater Road
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Hong Kong

The Board of Directors
China CITIC Bank Corporation Limited

April 16, 2007

China International Capital Corporation (Hong Kong) Limited
CITIC Securities Corporate Finance (HK) Limited
Citigroup Global Markets Asia Limited
The Hongkong and Shanghai Banking Corporation Limited
Lehman Brothers Asia Limited

Dear Sirs,

Introduction

We set out below our report on the financial information relating to China CITIC Bank Corporation Limited (the "Bank"), and its subsidiaries (collectively the "Group"), in Sections I to V, including the consolidated balance sheets of the Group as at 31 December 2004, 2005 and 2006, balance sheets of the Bank as at 31 December 2004, 2005 and 2006, and the related consolidated income statements, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for each of the years ended 31 December 2004, 2005 and 2006 (the "Relevant Periods") and the summary of significant accounting policies and other explanatory notes thereto (collectively the "Financial Information"), for inclusion in the Prospectus (the "Prospectus") of the Bank dated April 16, 2007.

The Bank was incorporated in the People's Republic of China (the "PRC" or "Mainland China", which excludes for the purpose of this report, the Hong Kong Special Administrative Region of the PRC, or Hong Kong, the Macau Special Administrative Region of the PRC, or Macau, and Taiwan) on 31 December 2006 as a joint stock company with limited liability pursuant to the restructuring (the "Restructuring") of China CITIC Bank ("CNCB") as described in Section V Note 1(a). The registered office of the Bank is located at Block C, Fuhua Mansion, 8 Chaoyangmen Beidajie, Dongcheng District, Beijing, China. The Bank succeeded all businesses of CNCB and related operations, together with the relevant assets and liabilities as at 31 December 2006.

As a state-owned financial institution, CNCB prepared its financial statements for the year ended 31 December 2004 in accordance with the Accounting Standards for Business Enterprises, the Accounting Regulations for Financial Enterprises (jointly issued by the Ministry of Finance of the PRC (the "MOF") and the People's Bank of China (the "PBOC") in 1993) and other relevant regulations issued by the MOF, and prepared its financial statements for the year ended 31 December 2005 in accordance with the Accounting Standards for Business Enterprises, the Accounting Regulations for Financial Enterprises (issued by the MOF in 2001) and other regulations issued by the MOF. These accounting regulations are collectively named as "Previous PRC GAAP" for the purpose of this report. The statutory financial statements of CNCB for the years ended 31 December 2004 and 2005 were audited by Shine Wing Certified Public Accountants, a firm of professional accountants registered in the PRC.

The Group prepared its financial statements for the year ended 31 December 2006 in accordance with the Accounting Standards for Business Enterprises (issued by the MOF in 2006) and other regulations issued by the MOF (collectively "2006 PRC GAAP"). KPMG Huazhen have acted as the statutory auditors of the

Bank for its financial statements prepared in accordance with 2006 PRC GAAP for the year ended 31 December 2006.

The Group also prepared a set of its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") and its interpretations promulgated by the International Accounting Standards Board ("IASB") for the years ended 31 December 2004, 2005 and 2006.

China Investment and Finance Limited ("CIFL") is a principal subsidiary of the Bank during the Relevant Periods. Deloitte Touche Tohmatsu were the statutory auditors of CIFL for the years ended 31 December 2004 and 2005. KPMG have acted as the statutory auditors of CIFL for the year ended 31 December 2006.

No financial statements of the Group have been audited subsequent to 31 December 2006.

Basis of preparation

The Financial Information has been prepared by the Directors of the Bank in accordance with IFRS and its interpretations promulgated by the IASB based on the audited financial statements of the Bank and its subsidiaries. Adjustments have been made, for the purpose of this report, to restate the statutory financial statements of the Bank and its subsidiaries in accordance with the basis set out in section V to conform with IFRS and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Responsibility

The Directors of the Bank are responsible for preparing the Financial Information which gives a true and fair view. In preparing the Financial Information which gives a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgments and estimates are made which are prudent and reasonable and that reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

Basis of opinion

As a basis for forming an opinion on the Financial Information of the Group, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have carried out such procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA. We have not audited any financial statements of the Group in respect of any period subsequent to 31 December 2006.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Financial Information, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the state of affairs of the Group as at 31 December 2004, 2005 and 2006, of its consolidated results and consolidated cash flows for each of the three years ended 31 December 2004, 2005 and 2006 and the state of the affairs of the Bank as at 31 December 2004, 2005 and 2006, and have been properly prepared in accordance with IFRS.

I Consolidated income statements
(Expressed in millions of Renminbi unless otherwise stated)

	Note	Years ended 31 December 2004	2005	2006
Interest income		17,795	22,511	29,490
Interest expense		(7,412)	(9,851)	(13,017)
Net interest income	3	10,383	12,660	16,473
Fee and commission income	4	449	608	965
Fee and commission expense		(131)	(190)	(206)
Net fee and commission income		318	418	759
Dividend income		1	1	1
Net profit/(loss) on disposal of fixed assets		11	12	(2)
Net gain/(loss) from trading securities	5	34	109	(49)
Net gain /(loss) from investment securities	6	11	(24)	45
Net gain arising from foreign currency dealing		227	266	503
Other operating income		161	213	197
Operating income		11,146	13,655	17,927
General and administrative expenses	7	(5,451)	(7,104)	(9,259)
Impairment losses charge	8	(1,634)	(1,098)	(1,666)
Profit before taxation		4,061	5,453	7,002
Income tax	12	(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		1,258	271	3,000
Earning per share attributable to equity holder(s) of the Bank				
— Basic and diluted (Renminbi)	13	0.08	0.10	0.12

II Consolidated balance sheets
(Expressed in millions of Renminbi unless otherwise stated)

	Note	31 December 2004	2005	2006
Assets				
Cash and balances with central bank	14	54,253	84,453	90,620
Amounts due from banks and other financial institutions	15	20,899	31,352	43,250
Loans and advances to customers	16	291,921	358,030	453,381
Investments	17	110,903	104,416	104,424
Property and equipment	18	8,090	8,614	8,745
Deferred tax assets	19	5,424	4,082	2,210
Other assets	20	3,955	3,655	4,093
Total assets		495,445	594,602	706,723
Liabilities				
Amounts due to central bank		300	240	201
Amounts due to banks and other financial institutions	21	38,190	28,021	36,166
Deposits from customers	22	435,020	530,573	618,412
Current tax liabilities		1,052	1,132	1,230
Deferred tax liabilities	19	—	71	141
Other liabilities and provisions	23	4,120	5,340	6,879
Subordinated debts/bonds issued	25	6,000	6,000	12,000
Total liabilities		484,682	571,377	675,029
Equity				
Share capital	26	—	—	31,113
Reserves	26	(7,031)	(3,441)	576
Owner's capital	26	17,790	26,661	—
Minority interests		4	5	5
Total equity		10,763	23,225	31,694
Total equity and liabilities		495,445	594,602	706,723

II Balance sheets of the Bank
(Expressed in millions of Renminbi unless otherwise stated)

	Note	31 December 2004	2005	2006
Assets				
Cash and balances with central bank		54,248	84,452	90,620
Amounts due from banks and other financial institutions		21,439	31,813	43,718
Loans and advances to customers		291,810	357,985	453,204
Investments		110,421	103,933	104,060
Investments in subsidiaries	1(c)	33	33	33
Property and equipment		8,066	8,589	8,717
Deferred tax assets		5,424	4,082	2,210
Other assets		3,946	3,647	4,089
Total assets		495,387	594,534	706,651
Liabilities				
Amounts due to central bank		300	240	201
Amounts due to banks and other financial institutions		38,190	28,021	36,166
Deposits from customers		435,020	530,573	618,416
Current tax liabilities		1,052	1,132	1,230
Deferred tax liabilities		—	71	140
Other liabilities and provisions		4,113	5,332	6,870
Subordinated debts/bonds issued		6,000	6,000	12,000
Total liabilities		484,675	571,369	675,023
Equity				
Share capital		—	—	31,113
Reserves		(7,078)	(3,496)	515
Owner's capital		17,790	26,661	—
Total equity		10,712	23,165	31,628
Total equity and liabilities		495,387	594,534	706,651

III Consolidated statement of changes in equity

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Share capital	Owner's capital	Capital reserve	Investment revaluation reserve	Properties revaluation reserve	Retained earnings	Minority interests	Total equity
As at 1 January 2004		—	14,032	—	167	1,594	(10,394)	3	5,402
Capital injection and capitalisation of earnings	26(a)	—	3,758	—	—	—	(1,258)	—	2,500
Net profit		—	—	—	—	—	2,427	1	2,428
Net change in fair value of available-for-sale investments		—	—	—	(174)	—	—	—	(174)
Realised on disposal of available-for-sale investments		—	—	—	(2)	—	—	—	(2)
Revaluation gain of bank premises		—	—	—	—	609	—	—	609
Transfer of revaluation gain realised through disposal		—	—	—	—	(10)	10	—	—
As at 31 December 2004		—	17,790	—	(9)	2,193	(9,215)	4	10,763
Capital injection and capitalisation of earnings	26(a)	—	8,871	—	—	—	(271)	—	8,600
Net profit		—	—	—	—	—	3,083	1	3,084
Net change in fair value of available-for-sale investments		—	—	—	138	—	—	—	138
Realised on disposal of available-for-sale investments		—	—	—	52	—	—	—	52
Revaluation gain of bank premises		—	—	—	—	588	—	—	588
Transfer of revaluation gain realised through disposal		—	—	—	—	(9)	9	—	—
As at 31 December 2005		—	26,661	—	181	2,772	(6,394)	5	23,225
Capital injection	26(a)	—	7,400	—	—	—	—	—	7,400
Net profit		—	—	—	—	—	3,858	—	3,858
Net change in fair value of available-for-sale investments		—	—	—	(14)	—	—	—	(14)
Revaluation gain of bank premises		—	—	—	—	123	—	—	123
Transfer of revaluation gain realised through disposal		—	—	—	—	(21)	21	—	—
Transfer of welfare payable to capital reserve	26(e)	—	—	102	—	—	—	—	102
Profit appropriation		—	—	—	—	—	(3,000)	—	(3,000)
Shares issued upon incorporation and elimination of owner's capital, reserves and accumulated losses as at 31 December 2005	26(e)	31,113	(34,061)	(493)	(181)	(2,772)	6,394	—	—
As at 31 December 2006		31,113	—	(391)	(14)	102	879	5	31,694

IV Consolidated cash flow statement

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Years ended 31 December 2004	2005	2006
Operating activities				
Profit before taxation		4,061	5,453	7,002
Adjustments for:				
— Revaluation gain on investments and derivatives		(5)	(83)	(78)
— Net gain on disposal of fixed assets		(11)	(12)	2
— Unrealised foreign exchange gain		(1)	(119)	49
— Impairment losses		1,634	1,098	1,666
— Depreciation and amortisation		579	681	708
— Interest expense on subordinated debts/bonds issued		136	298	427
		6,393	7,316	9,776
Changes in operating assets and liabilities:				
Increase in balances with central bank		(5,774)	(32,797)	(897)
Decrease/(increase) in amounts due from banks and other financial institutions		5,883	(5,979)	(15,668)
Increase in loans and advances to customers		(52,971)	(67,164)	(96,886)
(Increase)/decrease in other operating assets		(9,235)	5,065	(901)
Decrease in amounts due to central bank		(3,621)	(60)	(39)
Increase/(decrease) in amounts due to banks and other financial institutions		590	(10,169)	8,145
Increase in deposits from customers		89,664	95,553	87,839
Income tax paid		(902)	(964)	(1,102)
Increase in other operating liabilities		229	1,549	2,159
Net cash flows from operating activities		30,256	(7,650)	(7,574)

	Note	Years ended 31 December 2004	2005	2006
Investing activities				
Proceeds from disposal and redemption of investments		97,221	212,481	211,648
Proceeds from disposal of property and equipment, land use rights, and other assets		385	476	63
Payments on acquisition of investments		(123,666)	(207,956)	(230,133)
Payments on acquisition of property and equipment, and land use rights		(390)	(670)	(740)
Net cash used in investing activities		(26,450)	4,331	(19,162)
Financing activities				
Proceeds from capital injection		2,500	8,600	7,400
Interest paid on subordinated debts/bonds issued		(14)	(285)	(298)
Proceeds from subordinated debts/bonds issued		6,000	—	6,000
Profit paid to CITIC Group		—	—	(3,000)
Net cash from financing activities		8,486	8,315	10,102
Net increase/(decrease) in cash and cash equivalents		12,292	4,996	(16,634)
Cash and cash equivalents as at 1 January		53,621	66,335	70,130
Effect of exchange rate changes on cash and cash equivalents		422	(1,201)	(469)
Cash and cash equivalents as at 31 December	28	66,335	70,130	53,027
Cash flows from operating activities include:				
Interest received		15,646	19,565	29,135
Interest paid, excluding interest expense on subordinated debts/bonds issued		(6,863)	(9,141)	(12,009)

V Notes to the Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

1 Background and principal activities

(a) Organisation and Restructuring

The Bank is a joint stock company with limited liability incorporated in the PRC on 31 December 2006 with issued share capital of RMB 31,113 million as part of the Restructuring of CNCB.

The Bank obtained financial business licence No. B10611000H0001 issued by the China Banking Regulatory Commission (the "CBRC") on 26 December 2006 and business licence No. 1000001000600 issued by the State Administration for Industry and Commerce on 31 December 2006.

CNCB (previously known as "CITIC Industrial Bank") was a state-owned financial institution established on 7 April 1987 with the approval of the State Council. CNCB was wholly owned by CITIC Group Company (or "CITIC Group"), which was previously known as China International Trust and Investment Corporation. The name CITIC Industrial Bank was changed to China CITIC Bank on 2 August 2005.

With approval from the State Council, CNCB received the following approval documents regarding the Restructuring:

a) "The approval in connection with China CITIC Bank's restructuring" (Yin Jian Fu [2006] No. 317) issued by the CBRC;

b) "The approval in connection with China CITIC Bank's plan on state-owned shares restructuring" (Cai Jin [2006] No. 121) issued by the MOF; and

c) "The approval in connection with transferring part of CITIC Group's share of equity in China CITIC Bank" (Cai Jin Han [2006] No. 257) issued by the MOF.

Under these approval documents, CNCB was restructured into the Bank upon completion of the following activities:

(i) CITIC Group sold a 19.9% interest in CNCB to CITIC International Financial Holdings Limited ("CIFH") on 29 December 2006, a CITIC Group subsidiary.

(ii) CITIC Group and CIFH as joint promoters established the Bank as a joint stock company in accordance with "The agreement between promoters in connection with the establishment of China CITIC Bank Corporation Limited" and the Articles of Association of the Bank. It is agreed that CITIC Group is entitled to the profit and loss made by CNCB between 31 December 2005 and the date of the Bank's incorporation.

Upon the incorporation of the Bank on 31 December 2006, CITIC Group contributed its 80.1% interest in CNCB as at 31 December 2005, cash injection of RMB 5,000 million and RMB 2,400 million on 30 June and 30 November 2006 respectively in exchange for 84.8% share capital of the Bank. CIFH contributed its 19.9% interest in CNCB as at 31 December 2005 in exchange for 15.2% share capital of the Bank. Upon completion of the above capital contributions, the share capital of the Bank is RMB 31,113 million, of which CITIC Group and CIFH owns 84.8% and 15.2%, respectively.

The Bank succeeded all businesses of CNCB and related operations, together with the relevant assets and liabilities as at 31 December 2006.

Shine Wing Certified Public Accountants verified the RMB 31,113 million capital contribution to the joint stock company and issued a capital verification report (XYZH/2006A3039-2) on 14 December 2006.

(b) Principal activities

The principal activities of the Bank and its subsidiaries are the provision of corporate and personal banking services, conducting treasury business and corresponding banking business, and the provision of asset management, entrusted lending and custodian services.

As at 31 December 2006, the Bank had established branches and sub-branches in 18 provinces and municipalities directly under the central government in the PRC.

(c) Details of its subsidiaries

The results and affairs of its subsidiaries have been consolidated into the Financial Information of the Group. The particulars of the Bank's principal subsidiary as at 31 December 2006 are set out below

Name of the company	Place of incorporation and operation	Particulars of the issued and paid up capital	%of ownership directly held by the Bank	Principal Activities
CIFL	Hong Kong	250,000 shares of HK $100 each	95%	Money lending

2 Significant accounting policies

(a) Statement of compliance

The Financial Information has been prepared in accordance with IFRS and its interpretations promulgated by the IASB, and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted and consistently applied by the Group in the preparation of the Financial Information is set out below.

All IFRS in issue which are relevant to the Group have been applied, except for IFRS 7 Financial Instruments: Disclosures ("IFRS 7"), the amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures ("IAS 1 Amendment") and IFRS 8 Operating Segments ("IFRS 8"). IFRS 7 and IAS 1 Amendment were issued in August 2005 and are effective for annual accounting periods beginning on or after 1 January 2007. IFRS 8 was issued in November 2006 and is effective for annual accounting periods beginning on or after 1 January 2009.

IFRS 7 requires more detailed qualitative and quantitative disclosures primarily on fair value information and risk management. The Group has 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 the Group's accounting policies.

The Group has concluded that the disclosures required by IAS 1 Amendment on how the Group manages its capital and complies with external capital requirements would not have any financial impact nor result in a change in the Group's accounting policies.

IFRS 8 requires operating segments to be identified, and their amounts disclosed in the financial statements, on the same basis as internally reported for the purpose of making decisions on the allocation of an entity's resources. The Group has assessed the impact of IFRS 8 and concluded that its adoption would have no significant impact on the Group's financial statements.

(b) Basis of preparation of the Financial Information

The Financial Information is presented in Renminbi ("RMB"), which is the Group's functional and presentation currency, rounded to the nearest million.

The Financial Information is prepared using the historical cost basis, except for the following assets and liabilities which are stated at their fair value: financial assets and financial liabilities at fair value through profit or loss and available-for-sale assets, except those for which a reliable measure of fair value is not available; and property.

The preparation of the Financial Information in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances. The results of such estimates and assumptions form the basis of judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Judgments made by management in the application of IFRS that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the subsequent period are discussed in Note 36.

(c) Basis of consolidation

The consolidated Financial Information includes the Financial Information of the Bank and its subsidiaries. Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operational policies of an enterprise so as to obtain benefits from its activities. The results and affairs of subsidiaries are included in the consolidated Financial Information from the date that control commences until the date that control ceases.

Investments in controlled subsidiaries are consolidated into the consolidated Financial Information from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiary attributable to equity interests that are not owned by the Bank, whether directly or indirectly through subsidiary, are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity, separately from equity attributable to the equity owner of the Bank. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the net profit or loss for the year between minority interests and the equity owner of the Bank.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed to the Group has been recovered.

In the Bank's balance sheet, investments in subsidiaries are stated at cost less allowances for impairment losses.

(d) Foreign currency translations

Transactions in foreign currencies are translated into Renminbi at the foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rates ruling at that date. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated using the foreign exchange rates at the date the fair value is determined. When the gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity, all other foreign exchange differences arising on settlement and translation of monetary and non-monetary assets and liabilities are recognised in the income statement.

The assets and liabilities of the subsidiaries are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The revenue, expenses and cash flows of the subsidiaries are translated into Renminbi at rates approximating the foreign exchange rates ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised directly in equity.

(e) Financial instruments

(i) Recognition and measurement

All financial assets and financial liabilities are recognised in the balance sheet, when and only when, the Group or the Bank, as appropriate, becomes a party to the contractual provisions of the instrument. Financial assets are derecognised on the date when the contractual rights to the cash flows expire or substantially all the risks and rewards of ownership are transferred. Financial liabilities are derecognised on the date when the obligations specified in the contracts are discharged, cancelled or expired.

At initial recognition, all financial assets and financial liabilities are measured at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include observable market data. Transaction costs for financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

Financial assets and financial liabilities are categorised as follows:

— loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than those that the Group intends to sell immediately or in the near term, and those that are designated as available for sale upon initial recognition, or those where the Group 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 the Group has the positive intent and ability to hold to maturity, other than those that meet the definition of loans and receivables, or that the Group designated as at fair value through profit or loss or as available-for-sale;

— financial assets and financial liabilities at fair value through profit or loss include trading assets and liabilities of those financial assets and financial liabilities held principally for the purpose of short term profit taking and financial assets and financial liabilities that are designated by the Group upon recognition as at fair value through profit or loss.

All derivatives not qualified for hedging purposes are included in this category and are carried as assets when their fair value is positive and as liabilities when their fair value is negative; 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, loans and receivables or held-to-maturity assets.

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal except for loans and receivables, held-to-maturity financial assets and financial liabilities not designated at fair value through profit or loss, which are measured at amortised cost using the effective interest rate method. Financial assets and financial liabilities 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 financial liabilities carried at amortised cost, a gain or loss is recognised in the income statement when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

(ii) Impairment

Financial assets are assessed at each balance sheet date to determine whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The carrying amount of assets is reduced through the use of an allowance for impairment losses and a corresponding provision for impairment losses is recognised in the income statement.

Losses expected as a result of future events, no matter how likely, are not recognised because the necessary loss event has not yet occurred.

— Loans and receivables

The impairment allowance of loans and receivables are measured as the difference between the 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.

The Group first assesses 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 the Group 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.

(ii-1) 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 (see Note 34(a) for the definitions of the loan classification).

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 the Group 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 the Group. Each impaired asset is assessed on its merits.

(ii-2) Collective impairment allowances

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

— All homogeneous groups of loans (representing all the retail 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 risk characteristics;

— The emergence period between a loss occurring and that loss being identified; and

— 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.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Group 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.

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and be charged or credited to the income statement.

When the borrower or the guarantor fails to repay the loan principal and interest, and repossessed assets are received by the Group for recovery of the impaired loans, the carrying value of the impaired loans is adjusted, if necessary, to the estimated fair value of the repossessed assets through impairment allowances. The adjusted carrying value of the impaired loans is transferred to repossessed assets, net of impairment allowances.

When there is no reasonable prospect of recovery for the loan and the related interest receivables, the loan and the interest receivables as well as impairment allowances are written off.

— Held-to-maturity assets

For held-to-maturity financial assets, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. (i.e. the effective interest rate computed at initial recognition of these assets). Impairment losses are recognised in the income statement. Held-to-maturity assets with a short duration are not discounted if the effect of discounting is immaterial.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

— Available-for-sale assets

When a decline in the fair value of an available-for-sale asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from equity and recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in the income statement. For an available-for-sale asset that is not carried at fair value because its fair value cannot be reliably measured, such as an unquoted equity instrument, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, with the amount of the reversal being recognised in the income statement. Impairment losses recognised in the income statement for an investment in an equity instrument classified as available-for-sale are not reversed through the income statement. Any increase in the fair value of such assets is recognised directly in equity.

(iii) Fair value measurement

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.

Valuation techniques applied include recent arm's length market transactions between knowledgeable and willing parties referenced to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Periodically the Group calibrates the valuation techniques and tests them for validity.

In estimating the fair value of a financial asset and financial liability, the Group considers 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 and financial liability.

The Group obtains market data in the same market where the financial instrument was originated or purchased.

(iv) Derivative financial instruments

The Group's derivative financial instruments are principally undertaken in response to customers' needs or for the Group's own asset and liability management purposes. The Group also uses derivative financial instruments to hedge its exposure to market risks arising from its investment activities. 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.

(f) Repurchase and resale agreements

Assets purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are accounted for as balances with central bank, amounts due from banks and other financial institutions or loans and advances to customers depending on the identity of the counterparty.

Assets sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for these assets. The proceeds from the sale of the assets are reported as amounts due to central bank, banks or other financial institutions depending on the identity of the counterparty.

The difference between the purchase and resale consideration or the sale and repurchase consideration is amortised over the period of the transaction and is included in interest income or expense, as appropriate.

(g) Property and equipment

(i) Cost or revaluation

Property and equipment are stated at cost upon initial recognition.

Subsequent to initial recognition, the Group adopts 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. Decreases that offset previous increases of the same asset are charged against revaluation reserves; all other decreases are charged to the income statement.

Construction in progress represents property under construction and is stated at cost less impairment losses. Capitalisation of these costs ceases and the construction in progress is transferred to an appropriate class of property and equipment when the asset is substantially ready for its intended use.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Subsequent costs

The Group recognises in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense when incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost or revalued value, less residual value if applicable, of property and equipment and is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. The estimated useful lives are as follows:

	Estimated useful lives
Bank premises	30 – 35 years
Computer equipment	3 – 5 years
Others	5 – 10 years

No depreciation is provided in respect of construction in progress.

The residual value and useful lives of assets are reviewed, and adjusted if appropriate, as of each balance sheet date.

(iv) Impairment

The carrying amount of property and equipment is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised in the income statement except for property where it is carried at valuation and the impairment loss does not exceed the revaluation surplus for the same asset, in which case it is treated as a revaluation decrease. The recoverable amount is the greater of the net selling price and value in use.

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowances are reversed through the income statement. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in the income statement in prior years.

(v) Disposal and retirement

Gains or losses arising from the disposal or retirement of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of disposal or retirement. In respect of the disposal or retirement of property, any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(h) Land use rights

Land use rights are stated at cost less amortisation. Land use rights are amortised on a straight-line basis over the respective periods of grant.

(i) Repossessed assets

Repossessed assets are initially recognised at the carrying value of the loan principal and interest receivable, net of respective allowances for impairment losses, upon the seizure of these assets in lieu of the rights on the loans and advances and interest receivable. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset exceeds its recoverable amount.

(j) Fiduciary activities

The Group acts in a fiduciary capacity as a custodian, trustee or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are excluded from the balance sheet as the risks and rewards of the assets reside with the customers.

Entrusted lending is one of the principal fiduciary activities of the Group. The Group enters into entrusted loan agreements with a number of customers, whereby the customers provide funding (the "entrusted funds") to the Group, and the Group grants loans to third parties (the "entrusted loans") at the instruction of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts and no impairment assessments are made for these entrusted loans.

(k) Provisions and contingent liabilities

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(l) Employee benefits

(i) Employment benefits

Salaries and bonuses, housing benefits and costs for social security benefits are accrued in the year in which the services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Post employment benefits

Post employment benefits of the Group mainly include retirement benefits and supplementary retirement benefits.

Obligations for contributions to defined contribution retirement schemes are recognised as an expense in the income statement as incurred for current employees.

The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employee after their retirement using actuarial techniques. Such benefits are discounted to determine their present values. The discount rate is the yield on PRC government bonds at the balance sheet date, the maturity dates of which approximate to the terms of the Group's obligations. In calculating the Group's obligations, any actuarial gains and losses are recognised in the income statement immediately in the same financial year.

(m) Income recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Interest income

Interest income for all interest-bearing assets is recognised in the income statement using the effective interest method or an applicable floating rate. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows by considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

The accrual of interest income of a loan where principal or interest of which is overdue over 90 days based on the original terms of the claim is discontinued. Instead, interest will continue to be recognised on the impaired financial assets using the rate of interest used to discount future cash flows ("unwinding of discount") for the purpose of measuring the related impairment loss.

(ii) Fee and commission income

Fee and commission income is recognised in the income statement when the corresponding service is provided.

Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan, the fee is recognised as revenue on expiry.

(iii) Dividend

Dividend is recognised in the income statement on the date when the Group's right to receive payment is established.

(n) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when, and only when, the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(o) Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash, non-restricted balances with central bank, banks and other financial institutions, and short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(p) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the terms of the leases.

(q) Income tax

Income tax in the income statement comprises current tax and movements in deferred tax balances. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised 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 realisation 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 recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(r) Profit appropriations

Profit appropriations are recognised as a liability in the year in which they are approved and declared.

(s) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party, exercise significant influence or joint control over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control, common joint control or common significant influence. Related parties may be individuals and other entities.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

3 Net interest income

	Years ended 31 December		
	2004	2005	2006
Interest income arises from:			
Balances with central bank	853	713	964
Amounts due from banks and other financial institutions	754	607	715
Loans and advances to customers (note (i))			
— corporate loans	11,449	14,482	19,320
— personal loans	1,288	1,972	2,397
— discounted bills	1,488	1,728	2,617
Investments in debt securities (note (ii))	1,963	3,009	3,477
	17,795	22,511	29,490
Interest expense arises from:			
Balance due to central bank	(30)	(12)	(9)
Amounts due to banks and other financial institutions			
— rediscounted bills	(379)	(383)	(1,046)
— others	(686)	(646)	(745)
Deposits from customers	(6,181)	(8,512)	(10,790)
Subordinated debts/bonds issued	(136)	(298)	(427)
	(7,412)	(9,851)	(13,017)
Net interest income	10,383	12,660	16,473

Notes:

(i) Interest income arising from loans and advances to customers includes interest income accrued on individually assessed impaired loans and advances to customers of RMB 248 million for the year ended 31 December 2006 (2005: RMB 306 million, 2004: RMB 350 million), which includes interest income on the unwinding of discount of allowances for loan impairment losses of RMB 210 million for the year end 31 December 2006 (2005 : RMB 275 million, 2004: RMB 307 million) (Note 16(b)).

(ii) Interest income from investments in debt securities is mainly derived from unlisted investments.

4 Fee and commission income

	Years ended 31 December		
	2004	2005	2006
Guarantee fees	129	162	215
Settlement fees	133	166	214
Bank card fees	58	86	199
Agency fee for underwriting bonds and commission fee from bonds	37	113	132
Commission for consulting services and wealth management services	13	17	61
Commission for underwriting investment funds, agency fee for insurance services and other agency fees	24	24	54
Others	55	40	90
Total	449	608	965

5 Net gain/(loss) from trading securities

	Years ended 31 December		
	2004	2005	2006
Net (loss)/gain on debt securities trading	(17)	66	16
Revaluation gain of investments and derivatives	5	83	78
Others	46	(40)	(143)
Total	34	109	(49)

6 Net gain/(loss) from investment securities

	Years ended 31 December		
	2004	2005	2006
Net gain on disposal	8	53	45
Net revaluation gain/(loss) transferred from equity on disposal	3	(77)	—
Total	11	(24)	45

Net gain/(loss) on disposal primarily relates to available-for-sale securities.

7 General and administrative expenses

	Years ended 31 December		
	2004	2005	2006
Staff costs			
— 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	187	233	296
	1,581	2,086	2,914
Property and equipment expense			
— depreciation	548	617	621
— rent and property management expenses	345	376	497
— electronic equipment operating expenses	95	141	156
— maintenance	83	92	100
— others	96	112	134
	1,167	1,338	1,508
Business tax and surcharges (note (i))	792	991	1,398
Management fee to CITIC Group	300	500	750
Amortisation expense	31	64	87
Other general and administrative expenses (note (ii))	1,580	2,125	2,602
	5,451	7,104	9,259

Notes:

(i) Business tax of 5% is levied primarily on interest income from loans and advances to customers, and fee and commission income.

The surcharges, which include education surcharges and city construction tax, are charged at 3% and 7% of business tax paid respectively.

(ii) The amount includes auditors' remuneration of RMB 10 million for the year ended 31 December 2006 (2005: RMB 2 million, 2004: RMB 1 million).

8 Impairment losses charge

	Years ended 31 December		
	2004	2005	2006
Impairment losses charge/(release) on			
— loans and advances to customers	1,589	1,055	1,535
— bad and doubtful debts	16	46	60
— investments	61	1	(4)
— amount due from banks and other financial institutions	(17)	(6)	(3)
— others	(15)	2	78
	1,634	1,098	1,666

9 Directors' and supervisors' emoluments

The Board of Directors and the Board of Supervisors of the Bank were set up on 28 December 2005 and no director or supervisor was appointed by the Bank prior to this date. During the period from 28 December 2005 to 31 December 2005, no emoluments were paid or payable to any director or supervisor. The aggregate emolument of Directors' and Supervisors' during the year ended 31 December 2006 are as follows:

	Year ended 31 December, 2006
Salaries, other emoluments	1
Discretionary bonus	3
Contributions to defined contribution retirement schemes	—
	4

The number of the directors and supervisors whose emoluments fell within the following bands is set out below:

	Year ended 31 December, 2006
RMB 0 — RMB 1,000,000	2
RMB 2,500,000 — RMB 3,000,000	1
	3

The Directors and Supervisors of the Bank did not receive any inducements, or compensation for loss of office, or waive any emoluments during the Relevant Periods.

10 Individuals with highest emoluments

The aggregate emoluments of the five individuals with the highest emoluments for the years ended 31 December 2004, 2005 and 2006 are as follows:

	Years ended 31 December		
	2004	2005	2006
Salaries and other emoluments	1	1	1
Discretionary bonus	5	9	5
Contributions to defined contribution retirement schemes	1	1	1
	7	11	7

The number of the five highest paid individuals whose emoluments fell within the following bands is set out below:

	Years ended 31 December		
	2004	2005	2006
RMB 1,000,001 — RMB 1,500,000	4	—	—
RMB 1,500,001 — RMB 2,000,000	1	4	4
RMB 2,500,001 — RMB 3,000,000	—	1	—

Of the five individuals with the highest emoluments for the year ended 31 December 2006, the aggregate of the emoluments in respect of one individual whose emoluments is disclosed in Note 9 above.

11 Loans to directors, supervisors and officers

Loans to the Directors, Supervisor and Officers (and their affiliates) of the Bank as defined under section 161B of the Hong Kong Companies Ordinance during the years ended 31 December 2004, 2005 and 2006 are as follows:

	31 December		
	2004	2005	2006
Aggregate amount of relevant loans outstanding at year end	1	1	10

	Years ended 31 December		
	2004	2005	2006
Maximum aggregate amount of relevant loans outstanding during the year	1	1	12

12 Income tax

(a) Recognised in the income statement

	Years ended 31 December		
	2004	2005	2006
Current tax			
— Mainland China	1,041	1,044	1,199
— Hong Kong	—	—	—
Deferred tax (Note 19(b))	592	1,325	1,945
Income tax	1,633	2,369	3,144

(b) Reconciliation of profit before tax to income tax

	Years ended 31 December		
	2004	2005	2006
Profit before tax	4,061	5,453	7,002
Expected PRC income tax charged at statutory tax rate of 33% (note (i))	1,340	1,799	2,311
Tax impact on non-deductible expenses			
— Staff costs	343	485	654
— Others (note (ii))	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

Notes:

(i) The provision for 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 except for the Group's subsidiaries outside Mainland China which are subject to the income tax rate of 17.5%.

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

13 Earnings per share

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

	Years ended 31 December		
	2004	2005	2006
Earnings:			
Consolidated profit for the year attributable to equity holders of the Bank	2,427	3,083	3,858
Shares:			
Weighted average number of shares in issue or deemed to be in issue (million)	31,113	31,113	31,113
Earnings per share (RMB)	0.08	0.10	0.12

On 31 December 2006, with the approval of the State Council, CNCB was restructured and incorporated as a joint-stock limited company with a registered capital of RMB 31,113 million divided into 31,113 million shares with a par value of RMB 1 each. Basic and diluted earnings per share amounts for each of the years ended 31 December 2004, 2005 and 2006 have been computed as if the 31,113 million shares had been in issue since 1 January 2004.

There was no difference between the basic and diluted earnings per share as there were no dilutive events for the years ended 31 December 2004, 2005 and 2006.

14 Cash and balances with central bank

	31 December		
	2004	2005	2006
Cash	1,459	1,678	2,589
Balances with central bank			
— Statutory deposit reserve funds (note (i))	23,717	29,282	41,246
— Surplus deposit reserve funds (note (ii))	28,595	25,779	30,138
— Fiscal deposits reserve funds	482	274	677
— Balances under resale agreement with the PBOC	—	27,440	15,970
	52,794	82,775	88,031
Total	54,253	84,453	90,620

Notes:

(i) Statutory deposit reserve funds placed with the PBOC were calculated at 7% of eligible RMB customer deposits of the Bank prior to 25 April 2004. This ratio was increased to 7.5% on 25 April 2004, to 8% on 5 July 2006, to 8.5% on 15 August 2006 and further to 9% on 15 November 2006. The Bank was also required to deposit an amount equivalent to 2% of its foreign currency deposits from customers as statutory deposit reserve funds prior to 15 January 2005. This ratio was increased to 3% on 15 January 2005 and further to 4% on 15 September 2006.

The statutory deposit reserve funds are not available for the Group's daily business.

(ii) The surplus deposit reserve funds were maintained with the PBOC for the purposes of clearing.

15 Amounts due from banks and other financial institutions

(a) Analysed by nature

	31 December		
	2004	2005	2006
Deposits			
— Banks	9,766	16,968	8,894
— Other financial institutions	612	803	381
	10,378	17,771	9,275
Money market placements			
— Banks	3,339	688	4,843
— Other financial institutions	734	416	596
	4,073	1,104	5,439
Balances under resale agreements (note)			
— Banks	5,220	8,991	19,422
— Other financial institutions	1,697	3,828	9,419
	6,917	12,819	28,841
Gross balances	21,368	31,694	43,555
Less: Allowances for impairment losses (Note 15(e))	(469)	(342)	(305)
Net balances	20,899	31,352	43,250

Note:

Assets purchased under resale agreements are bank acceptance bills, loans and advances to customers, bonds issued by the PRC Government, bonds issued by policy banks and other debt securities of equivalent amounts.

(b) Analysed by original maturity

	31 December		
	2004	2005	2006
Balances maturing			
— less than one month	16,066	27,191	24,958
— between one month and one year	4,032	3,483	17,471
— more than one year	1,270	1,020	1,126
Gross balances	21,368	31,694	43,555

(c) Analysed by geographical location

	31 December		
	2004	2005	2006
Balances with			
— banks in Mainland China	12,880	20,291	27,214
— other financial institutions in Mainland China (note)	3,043	5,047	10,396
	15,923	25,338	37,610
Balances with banks outside Mainland China	5,445	6,356	5,945
Gross balances	21,368	31,694	43,555

Note:

Other financial institutions in Mainland China represent finance companies, investment trust companies and leasing companies which are registered with and under the supervision of the CBRC, and securities companies and investment fund companies registered with and under the supervision of the China Securities Regulatory Commission.

(d) Analysed by legal form of counterparty

	31 December		
	2004	2005	2006
Balances with			
— PRC policy banks	—	2	1,793
— PRC state-owned banks and other financial institutions	9,147	16,734	13,026
— PRC joint-stock banks and other financial institutions	7,190	8,602	22,871
— Foreign-invested banks and other financial institutions	5,031	6,356	5,865
Gross balances	21,368	31,694	43,555
Less: Allowances for impairment losses on balances with			
— PRC state-owned banks and other financial institutions	(144)	(144)	(144)
— PRC joint-stock banks and other financial institutions	(325)	(198)	(161)
Total allowances for impairment losses	(469)	(342)	(305)
Net balances	20,899	31,352	43,250

(e) Movements of allowances for impairment losses

	Years ended 31 December		
	2004	2005	2006
As at 1 January	(513)	(469)	(342)
Charge for the year	—	—	(3)
Reversal for the year	17	6	6
Write-offs	27	121	34
As at 31 December	(469)	(342)	(305)

(f) Impaired amounts due from banks and other financial institutions and allowances

	31 December		
	2004	2005	2006
Gross impaired amounts due from banks and other financial institutions	604	419	357
Impairment allowances against gross impaired amounts due from banks and other financial institutions (note)	(469)	(342)	(305)
Net total	135	77	52
Gross impaired amounts due from banks and other financial institutions as a percentage of total amounts due from banks and other financial institutions	2.83%	1.32%	0.82%

Note:

The allowances for impairment losses for amounts due from banks and other financial institutions are individually assessed.

16 Loans and advances to customers

(a) *Analysed by nature*

	31 December 2004	31 December 2005	31 December 2006
Corporate loans	256,422	282,275	369,156
Personal loans	31,730	37,834	48,375
Discounted bills	18,727	50,151	45,636
Gross loans and advances to customers	306,879	370,260	463,167
Less:			
— Individual impairment allowances	(12,485)	(9,622)	(6,859)
— Collective impairment allowances	(2,473)	(2,608)	(2,927)
Less: Impairment allowances (Note 16(b))	(14,958)	(12,230)	(9,786)
Net loans and advances to customers	291,921	358,030	453,381

(b) *Movements of allowances for impairment losses*

	Years ended 31 December				
			2006		
	2004	2005	Total	Collectively assessed	Individually assessed
As at 1 January	(16,774)	(14,958)	(12,230)	(2,608)	(9,622)
Charge for the year	(1,589)	(1,055)	(1,535)	(331)	(1,204)
Unwinding of discount	307	275	210	—	210
Transfers out	73	6	207	—	207
Write-offs	3,035	3,519	3,685	12	3,673
Recoveries of loans and advances previously written off	(10)	(17)	(123)	—	(123)
As at 31 December	(14,958)	(12,230)	(9,786)	(2,927)	(6,859)

(c) *Loans and advances to customers and allowances*

	31 December 2004				
	(note (i)) Loans and advances	(note (ii)) Impaired loans and advances			Gross impaired loans and advances as a % of gross total loans and advances
	for which allowances are collectively assessed	for which allowances are collectively assessed	for which allowances are individually assessed	Total	
Gross loans and advances to					
— financial institutions	6,461	—	915	7,376	12.41%
— non-financial institutions	281,138	391	17,974	299,503	6.13
	287,599	391	18,889	306,879	6.28%
Less: Impairment allowances against loans and advances to					
— financial institutions	(78)	—	(447)	(525)	
— non-financial institutions	(2,182)	(213)	(12,038)	(14,433)	
	(2,260)	(213)	(12,485)	(14,958)	
Net loans and advances to					
— financial institutions	6,383	—	468	6,851	
— non-financial institutions	278,956	178	5,936	285,070	
	285,339	178	6,404	291,921	

	31 December 2005				
	(note (i)) Loans and advances for which allowances are collectively assessed	(note (ii)) Impaired loans and advances			
		for which allowances are collectively assessed	for which allowances are individually assessed	Total	Gross impaired loans and advances as a % of gross total loans and advances
Gross loans and advances to					
— financial institutions	8,833	—	355	9,188	3.86%
— non-financial institutions	346,116	393	14,563	361,072	4.14
	354,949	393	14,918	370,260	4.14%
Less: Impairment allowances against loans and advances to					
— financial institutions	(91)	—	(242)	(333)	
— non-financial institutions	(2,292)	(225)	(9,380)	(11,897)	
	(2,383)	(225)	(9,622)	(12,230)	
Net loans and advances to					
— financial institutions	8,742	—	113	8,855	
— non-financial institutions	343,824	168	5,183	349,175	
	352,566	168	5,296	358,030	

	31 December 2006				
	(note (i)) Loans and advances for which allowances are collectively assessed	(note (ii)) Impaired loans and advances			
		for which allowances are collectively assessed	for which allowances are individually assessed	Total	Gross impaired loans and advances as a % of gross total loans and advances
Gross loans and advances to					
— financial institutions	2,867	—	240	3,107	7.72%
— non-financial institutions	448,735	414	10,911	460,060	2.46
	451,602	414	11,151	463,167	2.50%
Less: Impairment allowances against loans and advances to					
— financial institutions	(38)	—	(66)	(104)	
— non-financial institutions	(2,625)	(264)	(6,793)	(9,682)	
	(2,663)	(264)	(6,859)	(9,786)	
Net loans and advances to					
— financial institutions	2,829	—	174	3,003	
— non-financial institutions	446,110	150	4,118	450,378	
	448,939	150	4,292	453,381	

Notes:

(i) Loans and advances assessed on a collective basis for impairment bear relatively insignificant impairment losses as a proportion of the total portfolio. These loans and advances include those which are graded normal or special-mention.

(ii) Impaired loans and advances to customers include loans and advances for which objective evidence of impairment exists and which have been assessed as bearing significant impairment losses. These loans and advances include loans and advances for which objective evidence of impairment has been identified:

— individually (representing corporate loans and advances which are graded substandard, doubtful or loss); or

— collectively; that is the portfolios of homogeneous loans and advances (representing personal loans and advances which are graded substandard, doubtful or loss).

(iii) The definitions of the loan classification as stated above are described in Note 34(a).

(iv) The distribution of allowance for impairment losses for individually-assessed impaired corporate loans by legal form of borrowers is as follows:

	31 December 2004	2005	2006
Joint-stock enterprises	4,707	3,976	3,378
State-owned enterprises	3,994	2,747	1,485
Foreign invested enterprises	2,302	2,013	1,385
Private enterprises	405	277	330
Collectively-controlled enterprises	879	365	185
Others	198	244	96
Total allowance for impaired corporate loans	12,485	9,622	6,859

(d) Analysed by legal form of borrowers

	note	31 December 2004	2005	2006
Corporate loans to				
— Joint-stock enterprises		119,369	130,157	166,490
— State-owned enterprises	(i)	84,252	100,738	131,954
— Foreign invested enterprises		27,171	27,040	39,048
— Private enterprises		11,662	13,636	18,162
— Collectively-controlled enterprises		6,386	4,480	5,721
— Others		7,582	6,224	7,781
Subtotal		256,422	282,275	369,156
Personal loans				
— Home mortgage loans		17,838	26,246	36,470
— Credit card advances		208	447	1,280
— Others		13,684	11,141	10,625
Subtotal		31,730	37,834	48,375
Discounted bills		18,727	50,151	45,636
Gross loans and advances to customers		306,879	370,260	463,167
Less: Impairment allowances		(14,958)	(12,230)	(9,786)
Net loans and advances to customers		291,921	358,030	453,381

Note:

(i) Included in the impaired loans and advances to customers of the Group as disclosed in Note 16(c) are amounts of RMB 5,565 million, RMB 3,566 million and RMB 1,933 million as at December 31, 2004, 2005 and 2006 respectively, relating to loans and advances to state-owned enterprises.

17 Investments

	Note	31 December 2004	2005	2006
Held-to-maturity debt securities	(a)	61,370	67,727	68,196
Available-for-sale				
— debt securities	(b)	40,411	31,564	31,166
— equity investments	(c)	338	312	337
		40,749	31,876	31,503
Debt securities at fair value through profit or loss	(d)	8,784	4,813	4,725
Total		110,903	104,416	104,424

(a) Held-to-maturity debt securities

	31 December 2004	2005	2006
Issued by:			
Government			
— of Mainland China	18,022	17,545	17,673
— outside Mainland China	467	2,905	2,813
PBOC	23,883	17,569	17,638
Policy banks			
— in Mainland China	11,199	13,816	13,824
— outside Mainland China	262	274	439
Banks and other financial institutions			
— in Mainland China	1,268	917	991
— outside Mainland China	2,925	5,137	6,439
Public sector entities outside Mainland China	852	6,759	6,663
Corporate entities			
— in Mainland China	1,028	961	581
— outside Mainland China	1,464	1,844	1,135
Total	61,370	67,727	68,196
Listed in Hong Kong	83	80	156
Listed outside Hong Kong	3,639	5,386	6,572
Unlisted	57,648	62,261	61,468
Total	61,370	67,727	68,196
Market value of listed securities	3,763	5,425	6,641

(b) Available-for-sale debt securities

	31 December 2004	2005	2006
At fair value and issued by:			
Government			
— of Mainland China	3,284	2,844	2,029
— outside Mainland China	8,645	1,936	539
PBOC	7,892	8,259	4,032
Policy banks			
— in Mainland China	2,887	3,057	8,559
— outside Mainland China	224	113	331
Banks and other financial institutions			
— in Mainland China	199	—	99
— outside Mainland China	6,285	8,765	7,539
Public sector entities outside Mainland China	9,453	2,413	2,325
Corporate entities			
— in Mainland China	—	2,690	5,159
— outside Mainland China	1,542	1,487	554
Total	40,411	31,564	31,166
Listed in Hong Kong	363	352	558
Listed outside Hong Kong	18,257	7,040	6,549
Unlisted	21,791	24,172	24,059
Total	40,411	31,564	31,166

(c) Available-for-sale equity investments

	31 December		
	2004	2005	2006
At fair value and issued by:			
Banks and other financial institutions			
— in Mainland China	56	56	70
— outside Mainland China	220	220	267
Corporate entities			
— in Mainland China	38	36	—
— outside Mainland China	24	—	—
Total	338	312	337

All of the above equity investments are unlisted.

(d) Debt securities at fair value through profit or loss

	31 December		
	2004	2005	2006
At fair value and issued by:			
Government			
— of Mainland China	2,128	932	52
— outside Mainland China	83	—	—
PBOC	2,280	1,589	2,051
Policy banks in Mainland China	3,415	1,400	1,764
Banks and other financial institutions			
— in Mainland China	35	37	32
— outside Mainland China	511	572	550
Corporate entities			
— in Mainland China	41	—	276
— outside Mainland China	291	283	—
Total	8,784	4,813	4,725
Listed outside Hong Kong	77	118	154
Unlisted	8,707	4,695	4,571
Total	8,784	4,813	4,725

All of the above securities are held for trading purposes.

18 Property and equipment

	Bank premises (Note 18(a))	Construction in progress	Computer equipment	Others	Total
Cost or valuation:					
As at 1 January 2004	5,429	228	1,321	1,137	8,115
Additions	1,021	57	68	120	1,266
Disposals	(56)	(2)	(46)	(89)	(193)
Transfers	63	(70)	3	4	—
Surplus on revaluation	609	—	—	—	609
Elimination of accumulated depreciation on revaluation	(171)	—	—	—	(171)
As at 31 December 2004	6,895	213	1,346	1,172	9,626
As at 1 January 2005	6,895	213	1,346	1,172	9,626
Additions	30	121	361	97	609
Disposals	(37)	(1)	(18)	(136)	(192)
Transfers	102	(264)	150	12	—
Surplus on revaluation	588	—	—	—	588
Elimination of accumulated depreciation on revaluation	(223)	—	—	—	(223)
As at 31 December 2005	7,355	69	1,839	1,145	10,408
As at 1 January 2006	7,355	69	1,839	1,145	10,408
Additions	66	190	242	228	726
Disposals	(96)	(16)	(74)	(165)	(351)
Transfers	2	(6)	4	—	—
Surplus on revaluation	123	—	—	—	123
Elimination of accumulated depreciation on revaluation	(197)	—	—	—	(197)
As at 31 December 2006	7,253	237	2,011	1,208	10,709
Accumulated depreciation and impairment losses:					
As at 1 January 2004	—	—	(658)	(631)	(1,289)
Depreciation charges	(172)	—	(214)	(162)	(548)
Disposals	1	—	42	87	130
Elimination on revaluation	171	—	—	—	171
As at 31 December 2004	—	—	(830)	(706)	(1,536)
As at 1 January 2005	—	—	(830)	(706)	(1,536)
Depreciation charges	(224)	—	(283)	(110)	(617)
Disposals	1	—	—	135	136
Elimination on revaluation	223	—	—	—	223
As at 31 December 2005	—	—	(1,113)	(681)	(1,794)
As at 1 January 2006	—	—	(1,113)	(681)	(1,794)
Depreciation charges	(236)	—	(243)	(142)	(621)
Disposals	39	—	72	143	254
Elimination on revaluation	197	—	—	—	197
As at 31 December 2006	—	—	(1,284)	(680)	(1,964)
Net carrying value:					
As at 31 December 2004	6,895	213	516	466	8,090
As at 31 December 2005	7,355	69	726	464	8,614
As at 31 December 2006	7,253	237	727	528	8,745

Note:

As at 31 December 2006, the net book value of the Group's bank premises for which the registration procedures for ownership had not been completed was approximately RMB 669 million. The Group anticipates that there would be no significant issues and costs in completing such procedures.

(a) Analysed by remaining term of leases

The net carrying value of bank premises at the balance sheet date is analysed by the remaining terms of the leases as follows:

	31 December		
	2004	**2005**	**2006**
Long term leases (over 50 years), held in Hong Kong	24	24	27
Medium term leases (10-50 years), held in the PRC	6,871	7,331	7,226
Total	6,895	7,355	7,253

(b) Valuation

The bank premises of the Group were revalued at 31 December of each year at their open market value by reference to recent market transactions in comparable properties. The valuations were carried out by an independent firm of valuer, China Enterprise Appraisals Co., Ltd.

The revaluation surpluses have been transferred to the properties revaluation reserve of the Group.

Had these bank premises been carried at cost less accumulated depreciation, the carrying amounts would have been RMB 4,832 million as at 31 December 2006 (2005: RMB 4,926 million, 2004: RMB 4,980 million).

19 Deferred tax assets/(liabilities)

(a) Analysed by nature

	31 December		
	2004	**2005**	**2006**
Deferred tax assets	5,424	4,082	2,210
Deferred tax liabilities	—	(71)	(141)
Net balance	5,424	4,011	2,069

(b) The components of deferred tax assets/ (liabilities) recognised in the balance sheet and the movements during the years are as follows:

	Impairment loss on loans and advances to customers	Impairment loss on repossessed assets	Fair value	Others	Total deferred tax assets/ (liabilities)
			note (i)		
As at 1 January 2004	4,698	491	(61)	797	5,925
Recognised in income statement	(466)	19	12	(157)	(592)
Recognised in equity	—	—	91	—	91
As at 31 December 2004	4,232	510	42	640	5,424
As at 1 January 2005	4,232	510	42	640	5,424
Recognised in income statement	(854)	(23)	(14)	(434)	(1,325)
Recognised in equity	—	—	(88)	—	(88)
As at 31 December 2005	3,378	487	(60)	206	4,011
As at 1 January 2006	3,378	487	(60)	206	4,011
Recognised in income statement	(1,646)	(122)	(51)	(126)	(1,945)
Recognised in equity	—	—	3	—	3
As at 31 December 2006	1,732	365	(108)	80	2,069

Notes:

(i) Unrealised gains or losses arising from fair value adjustments for securities and derivatives are subject to tax when realised.

(ii) The Group did not have significant unrecognised deferred tax arising at the balance sheet date.

20 Other assets

	31 December		
	2004	2005	2006
Interest receivable			
— debt securities	900	888	986
— loans and advances to customers	675	736	982
— others	12	26	28
	1,587	1,650	1,996
Repossessed assets	1,020	826	599
Positive fair value of derivatives (Note 33)	301	211	452
Land use rights	212	195	191
Intangible assets	21	40	57
Others	814	733	798
Total	3,955	3,655	4,093

21 Amounts due to banks and other financial institutions

(a) Analysed by nature

	31 December		
	2004	2005	2006
Deposits			
— Banks	15,173	12,984	5,359
— Other financial institutions	14,488	13,009	25,962
	29,661	25,993	31,321
Balances under repurchase agreements (note)			
— Banks	5,607	1,227	1,538
— Other financial institutions	744	53	165
	6,351	1,280	1,703
Money market takings			
— Banks	42	40	2,486
— Other financial institutions	2,136	708	656
	2,178	748	3,142
Total	38,190	28,021	36,166

Note:

Assets pledged under repurchase agreements are bank acceptance bills, loans and advances to customers, and debt securities.

(b) Analysed by geographical location

	31 December		
	2004	2005	2006
Balances payable on demand			
— Banks in Mainland China	11,251	8,784	3,760
— Other financial institutions in Mainland China	8,724	7,906	23,755
	19,975	16,690	27,515
— Banks outside Mainland China	—	2	—
Term deposits			
— Banks in Mainland China	9,571	5,465	4,455
— Other financial institutions in Mainland China	8,644	5,864	3,028
	18,215	11,329	7,483
— Banks outside Mainland China	—	—	1,168
Total	38,190	28,021	36,166

(c) Analysed by legal form of counterparty

	31 December		
	2004	2005	2006
Balances with			
— PRC policy banks	799	304	12
— PRC state-owned banks and other financial institutions	2,078	1,053	109
— PRC joint-stock banks and other financial institutions	35,313	26,662	34,876
— Foreign-invested banks and other financial institutions	—	2	1,169
Total	38,190	28,021	36,166

22 Deposits from customers

(a) Analysed by nature

	31 December		
	2004	2005	2006
Demand deposits			
— Corporate customers	179,106	232,933	260,971
— Personal customers	6,811	10,110	26,053
	185,917	243,043	287,024
Time deposits (note(i))			
— Corporate customers	208,140	226,388	251,580
— Personal customers	40,963	61,142	79,808
	249,103	287,530	331,388
Total (note(ii))	435,020	530,573	618,412

Notes:

(i) The time deposits include notice deposits.

(ii) Deposits from customers include structured deposits, which are designated at fair value through profit or loss. The change in the fair value of these structured deposits is mainly attributable to changes in benchmark interest rates. The carrying amount of structured deposits as at 31 December 2006 was RMB 13,559 million (2005: RMB 12,656 million, 2004: RMB 7,032 million).

(b) Analysed by geographical segments

	31 December		
	2004	2005	2006
Bohai Rim	167,713	207,676	217,380
Yangtze River Delta	127,269	146,579	179,751
Pearl River Delta and West Strait	59,003	72,855	89,082
Central	32,420	47,214	59,844
Western	34,250	39,204	48,181
Northeastern	13,793	16,579	23,295
Head Office	572	466	879
Total	435,020	530,573	618,412

See Note 32(b) for the definitions of geographical segments.

23 Other liabilities and provisions

	31 December		
	2004	2005	2006
Interest payable			
— deposits from customers	1,861	2,303	2,885
— others	182	165	293
	2,043	2,468	3,178
Salaries and welfare payables (Note 23(a))	576	1,064	1,289
Supplementary retirement benefit obligations (Note 24(b))	44	42	48
Settlement accounts	177	346	307
Business and other tax payables	270	318	476
Negative fair value of derivatives (Note 33)	314	314	576
Government bond redemption payable	87	143	70
Dormant accounts	16	70	33
Payment and collection clearance account	39	57	86
Short positions in securities	111	—	79
Others	443	518	737
Total	4,120	5,340	6,879

(a) Salaries and welfare payables

Included under salaries and welfare payables, the Group has the following payables to defined contribution retirement schemes at the balance sheet date:

	31 December		
	2004	2005	2006
As at 31 December	17	18	8

24 Retirement benefits

(a) Defined contribution retirement schemes

In accordance with the labour regulations of the PRC, the Group participates in defined contribution retirement schemes organised by the municipal and provincial governments for its employees in Mainland China. The Group is required to make contributions to the government administered retirement schemes at certain rates of the salaries, bonuses and certain allowances of its employees.

In addition to the above retirement schemes, the Group has established a supplementary defined contribution plan for its qualified employees. The plan is administered by CITIC Group. The Group contributes an equivalent of 3% of qualified employees' salaries and bonuses to the plan each year, which amounting to RMB 32 million for the year ended 31 December 2006 (2005: RMB 25 million, 2004: RMB 21 million).

The Group is also required to make contributions to Mandatory Provident Fund Scheme for employees working in Hong Kong at the rate set up by the local laws and regulations.

The Group's total contributions during the relevant periods are disclosed in Note 7.

The Group has no other material obligations for the payment of its employees' retirement and other post retirement benefits other than the contributions described above and in Note 24(b) below.

(b) Supplementary retirement benefit obligations

The Group pays supplementary retirement benefits for all of its qualified retired employees in Mainland China. These benefits cover both employees currently employed and those retired. The amounts recognised in the balance sheets represent the present value of the unfunded obligations.

The Group's obligations in respect of the supplementary retirement benefits at the balance sheet date were reviewed by an independent actuary company, Mercer Human Resources Consulting, using the projected unit credit actuarial cost method. Mercer Human Resources Consulting employs professional actuaries, who are members of Society of Actuaries of the United States of America.

Net liabilities recognised in the balance sheet represent:

	31 December		
	2004	2005	2006
Present value of the obligations	44	42	48

Movements in the net liabilities recognised in the balance sheet are as follows:

	Years ended 31 December		
	2004	2005	2006
As at 1 January	36	44	42
Payments made	(1)	(1)	(1)
Net expense/(income) recognised in the income statement	9	(1)	7
As at 31 December	44	42	48

Net expense/(income) recognised as staff cost/(other income) in the income statement comprises:

	Years ended 31 December		
	2004	2005	2006
Current service cost	1	1	1
Interest cost on obligations	1	1	1
Actuarial loss/(gain)	7	(3)	5
Net expense/(income)	9	(1)	7

Principal actuarial assumptions at the balance sheet date are as follows:

	31 December		
	2004	2005	2006
Discount rate	3.00%	3.50%	3.50%

	1995-2006	2007	2008-2010	2011-2015	Since 2016
Earnings inflation rate	16.00%	14.00%	12.00%	9.00%	6.50%

25 Subordinated debts/bonds issued

During the relevant periods, the Group issued the following subordinated debts/bonds upon the approval of the PBOC and the CBRC. The carrying value of the Group's subordinated debts/bonds at the balance sheet date represents:

		31 December		
	note	2004	2005	2006
Subordinated floating rate debts maturing				
— in June 2010	(i)	4,778	4,778	4,778
— in July 2010	(i)	602	602	602
— in September 2010	(i)	300	300	300
— in June 2010	(ii)	320	320	320
Subordinated fixed rate bonds maturing				
— in June 2016	(iii)	—	—	4,000
— in June 2021	(iv)	—	—	2,000
Total nominal value		6,000	6,000	12,000

Notes:

(i) The interest rate per annum on the subordinated floating rate debts is the PBOC one-year fixed deposit rate plus an interest margin of 2.72%.

(ii) The interest rate per annum on the subordinated floating rate debts is the PBOC one-year fixed deposit rate plus an interest margin of 2.60%.

(iii) The interest rate per annum on the subordinated fixed rate bonds is 3.75%. The Group has an option to redeem the debts on 22 June 2011. If they are not redeemed early, the interest rate of the debts will increase in June 2011 to 6.75% per annum for the next five years.

(iv) The interest rate per annum on the subordinated fixed rate bonds is 4.12%. The Group has an option to redeem the debts on 22 June 2016. If they are not redeemed early, the interest rate of the debts will increase in June 2016 to 7.12% per annum for the next five years.

26 Equity

(a) Capital

Movements of the owner's capital of CNCB

	Years ended 31 December		
	2004	2005	2006
	(i)	(ii)	(iii)
As at 1 January	14,032	17,790	26,661
Capitalisation of retained earnings	1,258	271	—
Capital contribution	2,500	8,600	7,400
Transfer of reserves and accumulated losses as at 31 December 2005 to share capital	—	—	(34,061)
As at 31 December	17,790	26,661	—

Movement of the share capital of the Bank

	2006
	(iii)
As at 1 January	—
Shares issued upon incorporation	31,113
As at 31 December	31,113

The movements in the owner's capital of CNCB and the share capital of the Bank during the relevant periods are as follows:

(i) In December 2004, CNCB transferred RMB 1,258 million from retained earnings to owner's capital following a notice from CITIC Group. In addition, CITIC Group made a capital contribution of RMB 2,200 million and USD 36 million (equivalent to RMB 300 million) in cash to CNCB. Shine Wing Certified Public Accountants verified the capital contributions and issued a capital verification report (XYZH/A305032) on 6 January 2005. The owner's capital of CNCB was RMB 17,790 million as at 31 December 2004.

(ii) In December 2005, CNCB transferred RMB 271 million from retained earnings to owner's capital following a notice from CITIC Group. In addition, CITIC Group made a capital contribution of RMB 8,600 million in cash to CNCB. Shine Wing Certified Public Accountants verified the capital contributions and issued a capital verification report (XYZH/2005A3012-10) on 11 January 2006. The owner's capital of CNCB was RMB 26,661 million as at 31 December 2005.

(iii) In June 2006, CITIC Group made a capital contribution of RMB 5,000 million in cash to CNCB. Shine Wing Certified Public Accountants verified the capital contributions made by CITIC Group and issued a capital verification report (XYZH/2005A3069-1) on 30 June 2006.

In November 2006, CITIC Group made a capital contribution of RMB 2,400 million in cash to CNCB.

(iv) On 31 December 2006, CITIC Group and CIFH established the Bank as joint promoters upon completion of the Restructuring as stated in Note 1 (a). Following the Restructuring, the Bank was incorporated with a registered and paid up capital of RMB 31,113 million divided into 31,113 million shares with a par value of RMB 1 each. The Bank issued 26,394 million shares to CITIC Group in exchange for its interest in CNCB and cash contributions of RMB 7,400 million. The Bank issued 4,719 million shares to CIFH in exchange for its interest in CNCB.

Shine Wing Certified Public Accountants verified the capital contributions made by CITIC Group and CIFH and issued a capital verification report (XYZH/2006A3039-2) on 14 December 2006.

(b) Surplus reserves

Surplus reserves consist of statutory surplus reserve, discretionary surplus reserve and statutory public welfare fund.

(i) Statutory surplus reserve and discretionary surplus reserve

The Bank is required to appropriate 10% of its net profit, as determined under PRC GAAP, to a statutory surplus reserve until the reserve balance reaches 50% of the registered capital. After making appropriation to a statutory surplus reserve, the Bank may also appropriate its net profit to the discretionary surplus reserve upon approval by board of directors.

Subject to the approval of board of directors, statutory surplus and discretionary surplus reserves may be used to make good prior year losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital.

The fund is non-distributable other than in liquidation.

(ii) Statutory public welfare fund

Prior to 1 January 2006, the Bank was required to appropriate 5% of its net profit, as determined under Previous PRC GAAP, to the statutory public welfare fund. In accordance with The Company Law of the PRC, which was issued on 27 October 2005 and effective from 1 January 2006, the Bank is no longer required to make further appropriation to the statutory public welfare fund.

This fund can only be used to purchase capital items for the collective benefit of the Bank's employees such as the construction of dormitories, canteens and other staff welfare facilities.

The fund is non-distributable other than in liquidation.

The Group adopted the Accounting Regulations for Financial Enterprises (issued by the MOF in 2001) for the year ended 31 December 2005 and made retrospective adjustments resulting in a negative balance of the retained earnings as at 31 December 2005. As a result, the surplus reserves previously made have been used to partially set off the negative balance of the retained earnings and have been adjusted to nil.

(c) Investment revaluation reserve

Investment revaluation reserve has been accounted for in accordance with the accounting policies adopted for the measurement of available-for-sale investments at fair value.

(d) Properties revaluation reserve

Properties revaluation reserve has been made in accordance with the accounting policies adopted for the Group's bank premises.

(e) Capital reserve

In accordance with the notice "Accounting Treatment on Salary Payables for Enterprise Restructuring" (Cai Ban Qi [2006] No. 23) issued by MOF on 17 March 2006, RMB 102 million of accrued welfare payable was transferred to the capital reserve.

Pursuant to the Restructuring, the owner's capital, reserves and accumulated losses of CNCB, as determined under PRC GAAP, were converted into the Bank's issued share capital upon its incorporation as described in Note 1(a) and 26(a) to the Financial Information. Further, in order to have the same amount of share capital under both IFRS and PRC GAAP, RMB 391 million was transferred from newly created capital reserve to share capital under IFRS.

(f) Appropriation to general reserve

Pursuant to Cai Jin [2005] No. 49 and Cai Jing [2005] No. 90 issued by the MOF on 17 May 2005 and 5 September 2005 respectively (collectively named as the "MOF Notices"), which are effective on 1 July 2005, banks and certain other financial institutions in the PRC, including the Bank, should set up a general reserve calculated as a percentage of the total risk assets at the balance sheet date, through a transfer from retained earnings, to cover potential losses that are not yet incurred. The general reserve forms part of the equity of the financial institution. Financial institutions are not allowed to make profit distributions to shareholders until adequate general reserve has been made. If a financial institution cannot meet the requirement of maintaining adequate general reserve as stipulated in the MOF Notices as at 1 July 2005, the financial institution is required to take necessary steps to ensure that such requirement can be met in approximately 3 years but not more than 5 years, from 1 July 2005.

The Bank has not made any general reserve as at 31 December 2006.

27 Profit appropriations

The Bank appropriated profits of RMB 1,258 million and RMB 271 million from retained earnings to capital for the years ended 31 December 2004 and 2005 respectively. The Bank appropriated profits of RMB 3,000 million in cash to CITIC Group for the year ended 31 December 2006.

As stated in Note 1(a) (ii), CITIC Group is entitled to the profit and loss made by CNCB between 31 December 2005 and the date of the Bank's incorporation in accordance with relevant PRC rules and regulations. Accordingly, CITIC Group is entitled to RMB 726 million of the RMB 879 million retained earnings of the Group as at 31 December 2006. The board resolution after the balance sheet date in respect of the distribution of RMB 726 million is disclosed in Note 39(c).

28 Notes to consolidated cash flow statement

Cash and cash equivalents

	Years ended 31 December		
	2004	2005	2006
Cash	1,459	1,678	2,589
Surplus deposit reserve funds	28,595	25,779	30,138
Amounts due from banks and other financial institutions	20,899	31,352	43,250
Less:			
— amounts due over three months when acquired	(1,318)	(1,522)	(1,171)
— balances under resale agreements	(6,917)	(12,819)	(28,841)
	12,664	17,011	13,238
Investment securities	23,617	25,662	7,062
Total	66,335	70,130	53,027

29 Commitments and contingent liabilities

(a) Credit commitments

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

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

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

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amount reflected in the table for guarantees and letters of credit represents the maximum potential loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	31 December		
	2004	2005	2006
Contractual amount			
Loan commitments			
— with an original maturity of under one year	25	86	147
— with an original maturity of one year or over	1,458	2,440	5,547
	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
	130,745	150,092	195,572

These commitments and contingent liabilities have off-balance sheet credit risk. Before the commitments are fulfilled or expire, management assess and make allowances, which are recorded in other liabilities, for any probable losses accordingly. As the facilities may expire without being drawn upon, the total of the contractual amounts is not representative of expected future cash outflows.

	31 December		
	2004	2005	2006
Credit risk weighted amount of contingent liabilities and commitments	47,787	50,037	70,976

The credit risk weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% of contingent liabilities and commitments. The credit risk weighted amounts stated above have taken into account the effects of bilateral netting arrangements.

There are no relevant standards prescribed by IFRS in calculating the above credit risk weighted amounts.

(b) Capital commitments

The Group had the following authorised capital commitments at the balance sheet date:

	31 December		
	2004	**2005**	**2006**
Purchase of property and equipment			
— Contracted for	38	10	105

(c) Operating lease commitments

The Group leases certain properties under operating leases, which typically run for an initial period of one to five years and may include an option to renew the lease when all terms are renegotiated. At the balance sheet date, the Group's future minimum lease payments under non-cancellable operating leases for premises were as follows:

	31 December		
	2004	**2005**	**2006**
Within one year	248	298	366
After one year but within five years	675	781	917
After five years	407	459	496
Total	1,330	1,538	1,779

(d) Outstanding litigations and disputes

As at 31 December 2006, the Group was the defendant in certain pending litigations with gross claims of RMB 144 million (2005: RMB 229 million, 2004: RMB 296 million). The provision made by the Group for these litigations based upon the opinions of the Group's internal and external legal counsel are as follows:

	31 December		
	2004	**2005**	**2006**
Provision for litigations	—	—	20

(e) Underwriting obligations

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

	31 December		
	2004	**2005**	**2006**
Underwriting obligations	310	550	950

(f) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at the balance sheet date:

	31 December		
	2004	2005	2006
Redemption obligations	13,302	14,662	15,590

The Group expects the amount of redemption before the maturity date of these government bonds through the Group will not be material.

(g) Provision against commitments and contingent liabilities

The Group has assessed and has made provision for any probable outflow of economic benefits in relation to the above commitments and contingent liabilities at the balance sheet date in accordance with its accounting policies.

30 Assets pledged as security

The following assets have been pledged as security for bills rediscounting transactions, assets and securities sold under repurchase agreements. The related secured liabilities are recorded as amounts due to central bank, or banks and other financial institutions of approximately similar carrying value at the balance sheet date.

	31 December		
	2004	2005	2006
Debt securities	4,043	865	1,168
Discounted bills	2,223	75	41
Loans and advances to customers	2,308	415	535
Total	8,574	1,355	1,744

31 Entrusted lending business

The Group provides entrusted lending business services to corporations and individuals. All entrusted loans are made under the instruction or at the direction of these entities or individuals and are funded by entrusted funds from them.

For entrusted assets and liabilities and entrusted provident housing fund mortgage business, the Group generally does not take on credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided.

Trust assets are not assets of the Group and are not recognised in the balance sheet. Surplus funding is accounted for as deposits from customers. Income received and receivable for providing these services is included in the income statement as fee income.

At the balance sheet date, the entrusted assets and liabilities were as follows:

	31 December		
	2004	2005	2006
Entrusted loans	10,145	14,849	21,986
Entrusted funds	10,145	14,849	21,986

32 Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. Business segment information has been chosen as the primary reporting format as it is more relevant to the Group's internal financial reporting.

(a) Business segments

The Group comprises the following main business segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit taking activities, agency services, remittance and settlement services and guarantee services.

Personal banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans, deposit services and securities agency services.

Treasury business

This segment covers the Group's treasury operations. The treasury enters into inter-bank money market transactions and repurchase transactions, and invests in debt instruments. It also trades in debt instruments, derivatives and foreign currency for its own account. The treasury carries out customer driven transactions on derivatives and foreign currency trading. Its function also includes the management of the Group's overall liquidity position, including the issuance of subordinated debts/bonds.

Others and unallocated

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

	Year ended 31 December 2004				
	Corporate Banking	Personal Banking	Treasury Business	Others and unallocated	Total
External net interest income/(expense)	7,580	829	1,996	(22)	10,383
Internal net interest income/(expense)	1,043	260	(1,163)	(140)	—
Net interest income/(expense)	8,623	1,089	833	(162)	10,383
Net fee and commission income	222	70	19	7	318
Dividend income	—	—	1	—	1
Net gain arising from disposal of fixed assets	—	—	—	11	11
Net gain arising from trading securities	—	—	34	—	34
Net gain arising from investment securities	—	—	11	—	11
Net gain/(loss) arising from foreign currencies dealing	111	—	120	(4)	227
Other income	83	8	—	70	161
Operating income/(expense)	9,039	1,167	1,018	(78)	11,146
General and administrative expenses					
— depreciation and amortisation	(322)	(140)	(30)	(87)	(579)
— others	(2,941)	(869)	(259)	(803)	(4,872)
Impairment losses charge	(1,553)	(37)	(28)	(16)	(1,634)
Profit/(loss) before tax	4,223	121	701	(984)	4,061
Capital expenditure	167	75	15	57	314

	31 December 2004				
Segment assets	288,292	36,214	161,652	9,287	495,445
Segment liabilities	391,723	48,189	42,646	2,124	484,682
Off-balance sheet credit commitments	128,513	2,232	—	—	130,745

	Year ended 31 December 2005				
	Corporate Banking	Personal Banking	Treasury Business	Others and unallocated	Total
External net interest income/(expense)	9,113	840	2,717	(10)	12,660
Internal net interest income/(expense)	1,310	743	(1,783)	(270)	—
Net interest income/(expense)	10,423	1,583	934	(280)	12,660
Net fee and commission income/(expense)	309	102	57	(50)	418
Dividend income	—	—	1	—	1
Net gain arising from disposal of fixed assets	—	—	—	12	12
Net gain arising from trading securities	—	—	109	—	109
Net loss arising from investment securities	—	—	(24)	—	(24)
Net gain/(loss) arising from foreign currencies dealing	172	—	183	(89)	266
Other income	105	14	—	94	213
Operating income/(expense)	11,009	1,699	1,260	(313)	13,655
General and administrative expenses					
— depreciation and amortisation	(355)	(240)	(33)	(53)	(681)
— others	(3,720)	(1,422)	(367)	(914)	(6,423)
Impairment losses (charge)/release	(1,022)	(33)	2	(45)	(1,098)
Profit/(loss) before tax	5,912	4	862	(1,325)	5,453
Capital expenditure	316	238	30	61	645

	31 December 2005				
Segment assets	352,336	44,611	190,234	7,421	594,602
Segment liabilities	462,199	71,949	34,337	2,892	571,377
Off-balance sheet credit commitments	145,256	4,836	—	—	150,092

	Year ended 31 December 2006				
	Corporate Banking	Personal Banking	Treasury Business	Others and unallocated	Total
External net interest income/(expense)	12,323	911	3,316	(77)	16,473
Internal net interest income/(expense)	981	1,288	(1,851)	(418)	—
Net interest income/(expense)	13,304	2,199	1,465	(495)	16,473
Net fee and commission income	516	187	82	(26)	759
Dividend income	—	—	1	—	1
Net loss arising from disposal of fixed assets	—	—	—	(2)	(2)
Net loss arising from trading securities	—	—	(49)	—	(49)
Net gain arising from investment securities	—	—	45	—	45
Net gain/(loss) arising from foreign currencies dealing	330	—	223	(50)	503
Other income	92	—	—	105	197
Operating income	14,242	2,386	1,767	(468)	17,927
General and administrative expenses					
— depreciation and amortisation	(367)	(273)	(34)	(34)	(708)
— others	(4,910)	(2,042)	(476)	(1,123)	(8,551)
Impairment losses charge	(1,638)	20	7	(55)	(1,666)
Profit/(loss) before tax	7,327	91	1,264	(1,680)	7,002
Capital expenditure	411	292	27	31	761

	31 December 2006				
Segment assets	462,757	58,695	179,180	6,091	706,723
Segment liabilities	515,135	106,826	48,706	4,362	675,029
Off-balance sheet credit commitments	187,160	8,412	—	—	195,572

(b) Geographical segments

The Group operates principally in Mainland China with branches and sub-branches located in 18 provinces, autonomous regions and municipalities directly under the central government. The Bank's principal subsidiary, CIFL, is registered and operating in Hong Kong.

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

Geographical segments, as defined for management reporting purposes, are as follows:

— "Yangtze River Delta" refers to the following areas where tier-1 branches of the Group are located: Shanghai, Nanjing, Suzhou, Hangzhou and Ningbo;

— "Pearl River Delta and West Strait" refers to the following areas where tier-1 branches of the Group are located: Guangzhou, Shenzhen, Dongguan, Fuzhou and Xiamen;

— "Bohai Rim" refers to the following areas where tier-1 branches of the Group are located: Beijing, Tianjin, Dalian, Qingdao, Shijiazhuang and Jinan;

— "Central" region refers to the following areas where tier-1 branches of the Group are located: Hefei, Zhengzhou, Wuhan and Changsha;

— "Western" region refers to the following areas where tier-1 branches of the Group are located: Chengdu, Chongqing, Xi'an and Kunming;

— "Northeastern" region refers to the following areas where tier-1 branch of the Group is located: Shenyang;

— "Head Office" refers to the headquarter of the Group which is located at Beijing; and

— "Hong Kong" region refers to the Hong Kong Special Administrative Region where the subsidiaries of the Bank are located.

	Year ended 31 December 2004									
	Yangtze River Delta	**Pearl River Delta and West Strait**	**Bohai Rim**	**Central**	**Western**	**Northeastern**	**Head Office**	**Hong Kong**	**Elimination**	**Total**
External net interest income	2,998	1,028	2,509	578	777	244	2,218	31	—	10,383
Internal net interest income/(expense)	380	356	909	127	80	41	(1,873)	(20)	—	—
Net interest income	3,378	1,384	3,418	705	857	285	345	11	—	10,383
Net fee and commission income/(expense)	100	24	138	22	20	15	(1)	—	—	318
Dividend income	—	—	—	—	—	—	1	—	—	1
Net gain/(loss) arising from disposal of fixed assets	4	(3)	(3)	—	—	4	9	—	—	11
Net (loss)/gain arising from trading securities	—	—	(1)	—	—	—	35	—	—	34
Net gain arising from investment securities	—	—	—	—	—	—	11	—	—	11
Net gain/(loss) arising from foreign currencies dealing	68	32	125	9	4	2	(13)	—	—	227
Other income	62	14	51	7	5	2	17	3	—	161
Operating income	3,612	1,451	3,728	743	886	308	404	14	—	11,146
General and administrative expenses										
— depreciation and amortisation	(171)	(53)	(154)	(30)	(44)	(14)	(113)	—	—	(579)
— others	(1,443)	(658)	(1,198)	(283)	(319)	(112)	(850)	(9)	—	(4,872)
Impairment losses (charge)/release	(230)	(428)	(570)	(135)	(192)	(82)	3	—	—	(1,634)
Profit/(loss) before tax	1,768	312	1,806	295	331	100	(556)	5	—	4,061
Capital expenditure	15	7	24	8	7	2	251	—	—	314
	31 December 2004									
Segment assets	134,756	72,707	184,773	35,288	38,713	14,125	242,617	767	(228,301)	495,445
Segment liabilities	135,908	80,770	189,462	35,354	38,595	14,224	217,985	685	(228,301)	484,682
Off-balance sheet credit commitments	46,108	7,683	44,129	13,897	9,906	6,790	2,232	—	—	130,745

	Year ended 31 December 2005									
	Yangtze River Delta	Pearl River Delta and West Strait	Bohai Rim	Central	Western	Northeastern	Head Office	Hong Kong	Elimination	Total
External net interest income	3,681	2,011	2,225	972	841	290	2,618	22	—	12,660
Internal net interest income/(expense)	436	(272)	1,530	129	206	77	(2,086)	(20)	—	—
Net interest income	4,117	1,739	3,755	1,101	1,047	367	532	2	—	12,660
Net fee and commission income	142	18	170	37	21	14	16	—	—	418
Dividend income	1	—	—	—	—	—	—	—	—	1
Net gain arising from disposal of fixed assets	9	—	—	1	—	1	1	—	—	12
Net gain/(loss) arising from trading securities	1	1	1	—	—	—	106	—	—	109
Net gain/(loss) arising from investment securities	5	1	1	1	1	—	(33)	—	—	(24)
Net gain/(loss) arising from foreign currencies dealing	90	34	219	19	8	3	(107)	—	—	266
Other income	65	14	65	16	2	2	46	3	—	213
Operating income	4,430	1,807	4,211	1,175	1,079	387	561	5	—	13,655
General and administrative expenses										
— depreciation and amortisation	(134)	(47)	(143)	(39)	(36)	(9)	(273)	—	—	(681)
— others	(1,844)	(854)	(1,493)	(497)	(450)	(139)	(1,139)	(7)	—	(6,423)
Impairment losses release/(charge)	25	(155)	(576)	(281)	(81)	(28)	(2)	—	—	(1,098)
Profit/(loss) before tax	2,477	751	1,999	358	512	211	(853)	(2)	—	5,453
Capital expenditure	203	121	157	30	30	11	93	—	—	645

	31 December 2005									
Segment assets	165,024	83,440	232,848	52,229	46,004	17,797	314,697	693	(318,130)	594,602
Segment liabilities	164,419	88,901	235,735	52,240	45,770	17,803	284,036	603	(318,130)	571,377
Off-balance sheet credit commitments	56,987	13,546	43,773	15,277	9,774	5,899	4,836	—	—	150,092

	Year ended 31 December 2006									
	Yangtze River Delta	Pearl River Delta and West Strait	Bohai Rim	Central	Western	Northeastern	Head Office	Hong Kong	Elimination	Total
External net interest income	5,010	1,763	2,806	1,420	1,565	507	3,369	33	—	16,473
Internal net interest income/(expense)	212	564	1,778	125	(65)	(17)	(2,564)	(33)	—	—
Net interest income	5,222	2,327	4,584	1,545	1,500	490	805	—	—	16,473
Net fee and commission income	200	61	238	71	40	16	133	—	—	759
Dividend income	1	—	—	—	—	—	—	—	—	1
Net gain/(loss) arising from disposal of fixed assets	(2)	1	—	(1)	—	—	—	—	—	(2)
Net gain arising from trading securities	15	3	4	1	—	—	(72)	—	—	(49)
Net gain arising from investment securities	7	—	3	—	—	—	19	16	—	45
Net gain arising from foreign currencies dealing	125	51	223	30	9	6	59	—	—	503
Other income/(expense)	71	20	43	11	6	2	(26)	70	—	197
Operating income	5,639	2,463	5,095	1,657	1,555	514	918	86	—	17,927
General and administrative expenses										
— depreciation and amortisation	(181)	(58)	(142)	(41)	(41)	(17)	(228)	—	—	(708)
— others	(2,333)	(1,142)	(1,788)	(670)	(603)	(226)	(1,752)	(37)	—	(8,551)
Impairment losses charge	(88)	(78)	(819)	(285)	(232)	(119)	(45)	—	—	(1,666)
Profit/(loss) before tax	3,037	1,185	2,346	661	679	152	(1,107)	49	—	7,002
Capital expenditure	269	77	118	43	131	18	96	9	—	761

	31 December 2006									
Segment assets	203,715	104,489	261,135	68,851	59,631	32,561	264,594	1,107	(289,360)	706,723
Segment liabilities	200,377	108,868	262,736	68,438	58,904	31,953	232,103	1,010	(289,360)	675,029
Off-balance sheet credit commitments	64,557	20,318	54,203	26,801	14,593	6,688	8,412	—	—	195,572

33 Derivatives

Derivatives include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets. The Group, through the operations of its branch network, acts as an intermediary between a wide range of customers for structuring deals to produce risk management products to suit individual customer needs. These positions are actively managed through entering back to back deals with external parties to ensure the Group's net exposures are within acceptable risk levels. The Group also uses derivatives (principally foreign exchange options and swaps, and interest rate swaps) in the management of its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivatives of the Group by relevant maturity groupings based on the remaining periods to settlement and the corresponding fair values at the balance sheet date. The notional amounts of the derivatives indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

	Year ended 31 December 2004						
	Notional amounts with remaining life of					Fair values	
	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total	Assets	Liabilities
Interest rate derivatives							
Interest rate swaps	9,802	3,235	3,208	745	16,990	30	(122)
Cross-currency swaps	215	1,168	724	—	2,107	21	(14)
Forward rate agreement	16,426	26,150	—	—	42,576	31	(33)
Interest rate caps	—	331	—	331	662	6	—
Interest rate options	414	—	—	—	414	6	(3)
	26,857	30,884	3,932	1,076	62,749	94	(172)
Currency derivatives							
Spot	352	—	—	—	352	—	—
Forwards	7,748	925	383	204	9,260	111	(112)
Foreign exchange swaps	6,278	39	—	—	6,317	71	(11)
Currency options	603	102	—	—	705	17	(17)
	14,981	1,066	383	204	16,634	199	(140)
Credit derivatives							
Credit default swap	—	—	414	—	414	3	(2)
Asset swap	—	—	41	—	41	5	—
	—	—	455	—	455	8	(2)
Total						301	(314)
						(Note 20)	(Note 23)

	Year ended 31 December 2005						
	Notional amounts with remaining life of					Fair values	
	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total	Assets	Liabilities
Interest rate derivatives							
Interest rate swaps	10,456	8,107	6,280	3,418	28,261	75	(209)
Cross-currency swaps	6	104	84	—	194	3	(3)
Forward rate agreement	1,073	23,628	—	—	24,701	4	(2)
Interest rate options	242	81	—	—	323	—	(5)
	11,777	31,920	6,364	3,418	53,479	82	(219)
Currency derivatives							
Spot	507	—	—	—	507	—	—
Forwards	1,218	10,142	595	126	12,081	84	(66)
Foreign exchange swaps	19,237	707	—	—	19,944	37	(24)
Currency options	272	1,103	—	—	1,375	5	(5)
	21,234	11,952	595	126	33,907	126	(95)
Credit derivatives							
Credit default swap	—	162	242	323	727	2	—
Asset swap	—	40	—	—	40	1	—
	—	202	242	323	767	3	—
Total						211	(314)
						(Note 20)	(Note 23)

	Year ended 31 December 2006						
	Notional amounts with remaining life of					Fair values	
	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total	Assets	Liabilities
Interest rate derivatives							
Interest rate swaps	17,098	11,870	17,495	3,192	49,655	163	(278)
Cross-currency swaps	825	625	60	1,282	2,792	58	(58)
Forward rate agreement	586	31,972	8,349	—	40,907	14	(2)
Interest rate options	94	—	—	—	94	—	(1)
Interest rate caps and floors	—	938	593	—	1,531	15	—
	18,603	45,405	26,497	4,474	94,979	250	(339)
Currency derivatives							
Spot	12,564	—	—	—	12,564	5	(7)
Forwards	8,580	4,911	1,653	60	15,204	128	(118)
Foreign exchange swaps	12,221	6,245	574	—	19,040	52	(98)
Currency options	5,480	625	—	—	6,105	15	(13)
	38,845	11,781	2,227	60	52,913	200	(236)
Credit derivatives							
Credit default swap	—	160	80	320	560	2	(1)
	—	160	80	320	560	2	(1)
Total						452	(576)

The replacement costs and credit risk weighted amounts in respect of these derivatives are as follows. These amounts have taken into account the effects of bilateral netting arrangements.

Replacement costs

	31 December		
	2004	2005	2006
Interest rate derivatives	94	82	250
Currency derivatives	199	126	200
Credit derivatives	8	3	2
	301	211	452

Replacement cost represents the cost of replacing all contracts which have a positive value when marked to market. Replacement cost is a close approximation of the credit risk for these derivative contracts as at the balance sheet date.

Credit risk weighted amounts

	31 December		
	2004	2005	2006
Interest rate derivatives	28	64	180
Currency derivatives	100	116	325
Credit derivatives	99	97	96
	227	277	601

The credit risk weighted amount has been computed in accordance with the rules set by the CBRC, and depends on the status of the counterparty and the maturity characteristics of the instrument.

34 Financial risk management

This section presents information about the Group's exposure to and its management and control of risks, in particular the primary risks associated with its use of financial instruments:

- **Credit risk:** the loss resulting from customer or counterparty default and arising on credit exposure in all forms, including settlement risk.
- **Market risk:** the exposure to market variables such as interest rates, exchange rates and equity markets.
- **Liquidity risk:** where Group is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds in the market on an unsecured, or even secured basis at an acceptable price to fund actual or proposed commitments.
- **Operational risk:** the risk arising from matters such as non-adherence to systems and procedures or from fraud resulting in financial or reputation loss.

The Group has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to constantly monitor the risks and limits by means of reliable and up-to-date management information systems. The Group regularly modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. Internal auditors also perform regular audits to ensure compliance with policies and procedures.

(a) Credit risk

This category includes credit and counterparty risks from loans and advances, issuer risks from the securities business, counterparty risks from trading activities, and country risks. The Group identifies and manages this risk through its target market definitions, credit approval process, post-disbursement monitoring and remedial management procedures.

In addition to underwriting standards, the principal means of managing credit risk is the credit approval process. The Group has policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction.

The Group undertakes ongoing credit analysis and monitoring at several levels. The policies are designed to promote early detection of counterparty, industry or product exposures that require special monitoring. The Risk Management Committee monitors overall portfolio risk as well as individual problem loans, both actual and potential, on a regular basis.

In respect of the loan portfolio, the Group adopts a risk-based loan classification methodology and classifies loans into five categories: normal, special-mention, substandard, doubtful and loss, in accordance with the guidelines issued by the PBOC and the CBRC.

The core definitions of the five categories of loans and advances are set out below:

Normal	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard	Borrowers' abilities to service their loans are in question as they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss	Only a small portion or no principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

The Group applies a series of criteria in determining the classification of loans. The loan classification criteria focuses on a number of factors, including (i) the borrower's ability to repay the loan; (ii) the borrower's repayment history; (iii) the borrower's willingness to repay; (iv) the net realisable value of any collateral; and (v) the prospect for the support from any financially responsible guarantor. The Bank also takes into account the length of time for which payments of principal and interest on a loan are overdue. In general, unsecured loans with principal or interest overdue for more than 90 days and secured loans with principal or interest overdue for more than 180 days are classified at substandard or below.

The Group's retail credit policy and approval process are designed for the fact that there are high volumes of relatively homogeneous, small value transactions in each retail loan category. Because of the nature of retail banking, the credit policies are based primarily on statistical analyses of risks with respect to different products and types of customers. The Group monitors its own and industry experience to determine and periodically revise product terms and desired customer profiles.

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect the Group's counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instruments is diversified along industry, geographic and product sectors.

(i) Loans and advances to customers analysed by economic sector concentrations at the balance sheet date:

	31 December					
	2004		2005		2006	
		%		%		%
Corporate loans						
— Manufacturing	71,247	23.2	81,537	22.0	108,539	23.4
— Production and supply of electric power, gas and water	23,825	7.8	26,559	7.2	38,022	8.2
— Transportation, storage and post service	22,459	7.3	23,633	6.4	35,933	7.7
— Wholesale and retail	26,023	8.5	29,902	8.1	33,468	7.2
— Rent and business services	14,538	4.7	18,566	5.0	29,375	6.4
— Real estate	27,640	9.0	22,957	6.2	28,796	6.2
— Water, environment and public utility management	18,109	5.9	20,811	5.6	26,915	5.8
— Construction	13,980	4.6	15,963	4.3	23,364	5.1
— Public management and social organizations	5,748	1.9	7,858	2.1	10,468	2.3
— Financing	7,376	2.4	9,188	2.5	3,107	0.7
— Other customers	25,477	8.3	25,301	6.8	31,169	6.7
Subtotal	256,422	83.6	282,275	76.2	369,156	79.7
Personal loans	31,730	10.3	37,834	10.2	48,375	10.4
Discounted bills	18,727	6.1	50,151	13.6	45,636	9.9
Gross loans and advances to customers	306,879	100.0	370,260	100.0	463,167	100.0
Less: Impairment allowances	(14,958)		(12,230)		(9,786)	
Net loans and advances to customers	291,921		358,030		453,381	

(ii) Loans and advances to customers analysed by geographical sector risk concentrations at the balance sheet date:

	31 December					
	2004		2005		2006	
		%		%		%
Yangtze River Delta	91,672	29.9	120,026	32.4	146,784	31.7
Pearl River Delta and West Strait	49,491	16.1	52,885	14.3	68,230	14.7
Bohai Rim (including Head Office)	100,195	32.6	115,706	31.2	138,310	29.9
Central	27,477	9.0	36,255	9.8	46,704	10.1
Western	27,943	9.1	32,029	8.7	43,820	9.5
Northeastern	9,880	3.2	13,207	3.6	19,141	4.1
Hong Kong	221	0.1	152	—	178	—
Gross loans and advances to customers	306,879	100.0	370,260	100.0	463,167	100.0
Less: Impairment allowances	(14,958)		(12,230)		(9,786)	
Net loans and advances to customers	291,921		358,030		453,381	

See Note 32(b) for the definitions of geographical segments.

(b) Market risk

Market risk arises on all market risk sensitive financial instruments, including securities, foreign exchange contracts, equity and derivative instruments, as well as from balance sheet or structural positions. Market risk arises from adverse movement in market rates including interest rates, foreign exchange rates and stock prices etc. as well as their volatility. Market risk would arise from both the Group's trading and non-trading business. The objective of market risk management is to avoid excessive exposure of earnings and equity to loss and to reduce the Group's exposure to the volatility inherent in financial instruments.

The Financial Planning Department is responsible for formulating the Group's market risk management policies, and managing its overall market risk exposures. The Financial Planning Department sets the trigger and limit on the interest rates and foreign exchange rates of the Group, articulates periodical reviews and decide on future business strategy with respect to interest rates and foreign exchange rates. The Financial Planning Department has delegated the responsibility for ongoing trading book market risk to the Treasury Department. The Treasury Department manages the Group's RMB and foreign currency investment portfolios, conducts proprietary and customer-driven trades, implements market risk management policies and rules and performs daily identification, measurement, assessment and control of risks.

The use of derivatives for proprietary trading and their sale to customers as risk management products is an integral part of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivative instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives.

Sensitivity analysis and foreign currency exposure analysis are the key methods used by the Group to measure and monitor the market risk of its trading business with Value-at-Risk ("VaR") as a supplementary method. Gap analysis is the key method used by the Group to monitor the market risk of its non-trading business.

The Group applies a wide range of sensitivity analyses to assess the potential impact on the Group's earnings as a result of a set of forward-looking movements in market prices and the result is regularly reviewed.

Foreign currency exposure analysis is a method to measure the effect on the Group's net earnings by foreign exchange rate changes. The Group calculates individual foreign currency exposure for both net spot and net forward positions. All the individual foreign currency exposures are then aggregated to form an overall exposure. Foreign currency exposure limits are set for individual currencies as well as the overall level. The Group also distinguishes between trading and non-trading foreign currency exposures.

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The Group's Treasury Department calculates interest rate VaR using historical movement in market rates and prices, at 99% confidence level, with a 10-day holding period on its foreign currency denominated investments.

Gap analysis is a technique to project future cash flows in order to quantify the differences, for a range of future dates, between assets and liabilities.

Currently, the Group is upgrading its present market risk management information system to monitor its overall market risk through new Assets and Liability Management (ALM) and Fund Transfer Pricing (FTP) systems.

The Group does not actively trade in financial instruments and, in the opinion of the directors, the market risk related to trading activities to which the Group is exposed is not material. Accordingly, no quantitative market risk disclosures have been prepared.

(c) Interest rate risk

The Group's interest rate exposures mainly comprise those originating in its commercial banking structural interest rate exposure, and trading positions. The Financial Planning Department is responsible for overall interest rate risk management.

The structural interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments. The Financial Planning Department manages the structural interest rate risk primarily through gap analysis and interest rate sensitivity analysis.

The majority of interest rate risk from the Group's trading positions arises from the Treasury's investment portfolios. Sensitivity related limits such as Price Value of a Basis Point (PVBP) and duration, as well as stop loss limits and concentration limit, are the main tools adopted by the Financial Planning Department to manage trading interest rate risk.

Interest rate risk limits are determined by the Market Risk Committee, which is comprised of senior management. The Financial Planning Department monitors interest rate risk and reports to the Market Risk Committee on both a regular and ad hoc basis as the need arises.

The following tables indicate the effective interest rates for the year and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities at the balance sheet date.

		31 December 2004					
	Effective interest rate (note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central bank	1.80%	54,253	1,459	52,794	—	—	—
Amounts due from banks and other financial institutions	2.20%	20,899	—	18,296	1,333	1,270	—
Loans and advances to customers (note (ii))	4.85%	291,921	—	134,079	155,869	1,973	—
Investments	3.19%	110,903	—	44,721	31,224	21,913	13,045
Others	—	17,469	17,469	—	—	—	—
Total assets		495,445	18,928	249,890	188,426	25,156	13,045
Liabilities							
Amounts due to central bank	3.20%	300	—	300	—	—	—
Amounts due to banks and other financial institutions	1.72%	38,190	—	30,998	5,091	1,312	789
Deposits from customers	1.66%	435,020	5,182	336,007	75,541	12,815	5,475
Subordinated debts/bonds issued	4.96%	6,000	—	6,000	—	—	—
Others	—	5,172	5,172	—	—	—	—
Total liabilities		484,682	10,354	373,305	80,632	14,127	6,264
Asset-liability gap		10,763	8,574	(123,415)	107,794	11,029	6,781

	Effective interest rate (note (i))	31 December 2005 Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central bank	1.53%	84,453	1,677	82,776	—	—	—
Amounts due from banks and other financial institutions	2.19%	31,352	—	27,084	3,248	1,020	—
Loans and advances to customers (note (ii))	5.18%	358,030	—	158,629	197,656	1,745	—
Investments	3.05%	104,416	—	50,201	17,864	23,060	13,291
Others	—	16,351	16,351	—	—	—	—
Total assets		594,602	18,028	318,690	218,768	25,825	13,291
Liabilities							
Amounts due to central bank	4.33%	240	—	240	—	—	—
Amounts due to banks and other financial institutions	1.87%	28,021	—	22,515	692	2,810	2,004
Deposits from customers	1.86%	530,573	18,929	416,860	78,392	11,916	4,476
Subordinated debts/bonds issued	4.96%	6,000	—	6,000	—	—	—
Others	—	6,543	6,543	—	—	—	—
Total liabilities		571,377	25,472	445,615	79,084	14,726	6,480
Asset-liability gap		23,225	(7,444)	(126,925)	139,684	11,099	6,811

	Effective interest rate (note (i))	31 December 2006 Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central bank	1.54%	90,620	2,589	88,031	—	—	—
Amounts due from banks and other financial institutions	2.73%	43,250	—	39,622	2,935	693	—
Loans and advances to customers (note (ii))	5.33%	453,381	—	223,558	225,435	3,557	831
Investments	3.37%	104,424	337	28,778	51,797	12,685	10,827
Others	—	15,048	15,048	—	—	—	—
Total assets		706,723	17,974	379,989	280,167	16,935	11,658
Liabilities							
Amounts due to central bank	5.10%	201	—	28	173	—	—
Amounts due to banks and other financial institutions	1.91%	36,166	—	33,921	1,378	211	656
Deposits from customers	1.96%	618,412	4,190	489,467	107,450	14,021	3,284
Subordinated debts/bonds issued	4.66%	12,000	—	6,000	—	—	6,000
Others	—	8,250	8,250	—	—	—	—
Total liabilities		675,029	12,440	529,416	109,001	14,232	9,940
Asset-liability gap		31,694	5,534	(149,427)	171,166	2,703	1,718

Notes:

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

(ii) For loans and advances to customers, the above "Less than three months" category includes overdue amounts (net of allowances for impairment losses) of RMB 6,838 million as at 31 December 2006 (2005: RMB 7,718 million, 2004: RMB 7,724 million). Overdue amounts represent loans, of which the whole or part of the principals was overdue, or interest was overdue for more than 90 days but for which principal was not yet due.

(d) Currency risk

The Group's foreign currency positions arise from foreign exchange dealing, commercial bank operations and foreign currency capital related structural exposures. The foreign currency exposures arising in branch daily operations are aggregated to Treasury Department through back to back transactions.

The Treasury Department manages the currency risk within the limits approved by the Financial Planning Department by closing the exposure positions through external market transactions.

The Group manages other currency risk by spot and forward foreign exchange transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The exposures at the balance sheet date were as follows:

	31 December 2004			
	RMB	USD	Others	Total
Assets				
Cash and balances with central bank	52,052	1,954	247	54,253
Amounts due from banks and other financial institutions	14,564	3,261	3,074	20,899
Loans and advances to customers	279,503	10,533	1,885	291,921
Investments	75,752	24,052	11,099	110,903
Others	15,912	1,310	247	17,469
Total assets	437,783	41,110	16,552	495,445
Liabilities				
Amounts due to central bank	300	—	—	300
Amounts due to banks and other financial institutions	30,272	2,845	5,073	38,190
Deposits from customers	391,516	26,759	16,745	435,020
Subordinated debts/bonds issued	6,000	—	—	6,000
Others	2,445	2,692	35	5,172
Total liabilities	430,533	32,296	21,853	484,682
Net on-balance sheet position	7,250	8,814	(5,301)	10,763
Credit commitments	114,192	12,994	3,559	130,745
Derivatives (note)	—	(3,328)	3,371	43

	31 December 2005			
	RMB	USD	Others	Total
Assets				
Cash and balances with central bank	81,554	2,485	414	84,453
Amounts due from banks and other financial institutions	14,394	6,129	10,829	31,352
Loans and advances to customers	339,589	17,045	1,396	358,030
Investments	69,327	28,266	6,823	104,416
Others	14,405	1,848	98	16,351
Total assets	519,269	55,773	19,560	594,602
Liabilities				
Amounts due to central bank	240	—	—	240
Amounts due to banks and other financial institutions	23,756	2,237	2,028	28,021
Deposits from customers	463,068	43,958	23,547	530,573
Subordinated debts/bonds issued	6,000	—	—	6,000
Others	6,523	—	20	6,543
Total liabilities	499,587	46,195	25,595	571,377
Net on-balance sheet position	19,682	9,578	(6,035)	23,225
Credit commitments	129,258	16,456	4,378	150,092
Derivatives (note)	699	(6,304)	5,707	102

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

Note:

The derivatives represent the net notional amount of currency derivatives, including undelivered foreign exchange spot, foreign exchange forward, foreign exchange swap and currency option.

(e) Liquidity risk

The purpose of liquidity management is to ensure sufficient cash flows for the Group to meet all financial commitment and to capitalise on opportunities for business expansion. This includes the Group's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings in full amounts as they mature, or to meet other obligations for payments, to comply with the statutory liquidity ratio, and to make new loans and investments as opportunities arise.

Liquidity is managed on a daily basis according to the Group's liquidity objectives by the Treasury under the direction of the Asset and Liability Committee. It is responsible for ensuring that the Group has adequate liquidity for RMB and foreign currency operations.

The Group manages liquidity risk by holding liquid assets (e.g. deposits at PBOC, other short term funds and securities) of appropriate quality and quantity to ensure that short term funding requirements are covered within prudent limits. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material demand for payments in the ordinary course of business.

The Group regularly stress tests its liquidity position.

In terms of measuring liquidity risk, the Group principally uses liquidity gap analysis. Different scenarios are applied to assess the impact on liquidity for proprietary trading and client businesses.

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the balance sheet date.

	31 December 2004						
	Overdue/ repayable on demand	Less than three months	Between three months and one year	Between one and five years	More than five years	Undated	Total
Assets							
Cash and balances with central bank (note (i))	30,054	—	—	—	—	24,199	54,253
Amounts due from banks and other financial institutions	10,245	8,050	1,334	1,270	—	—	20,899
Loans and advances to customers (note (ii))	7,921	57,247	130,006	56,573	40,174	—	291,921
Investments (note (iii))							
— Held-to-maturity debt securities	—	8,282	23,391	16,550	13,147	—	61,370
— Available-for-sale investments	—	23,381	4,871	7,728	4,769	—	40,749
— Debt securities at fair value through profit or loss	—	—	2,380	3,179	3,225	—	8,784
Others	259	819	1,136	136	47	15,072	17,469
Total assets	48,479	97,779	163,118	85,436	61,362	39,271	495,445
Liabilities							
Amounts due to central bank	—	—	300	—	—	—	300
Amounts due to banks and other financial institutions	25,333	5,665	5,091	1,312	789	—	38,190
Deposits from customers	202,603	97,117	75,989	53,045	6,266	—	435,020
Subordinated debts/bonds issued	—	—	—	—	6,000	—	6,000
Others	125	3,422	486	16	44	1,079	5,172
Total liabilities	228,061	106,204	81,866	54,373	13,099	1,079	484,682
Long/(short) position	(179,582)	(8,425)	81,252	31,063	48,263	38,192	10,763

	31 December 2005						
	Overdue/ repayable on demand	Less than three months	Between three months and one year	Between one and five years	More than five years	Undated	Total
Assets							
Cash and balances with central bank (note (i))	27,457	27,440	—	—	—	29,556	84,453
Amounts due from banks and other financial institutions	17,152	9,932	3,248	1,020	—	—	31,352
Loans and advances to customers (note (ii))	8,147	68,142	172,168	61,230	48,343	—	358,030
Investments (note (iii))							
— Held-to-maturity debt securities	—	16,655	9,323	26,362	15,387	—	67,727
— Available-for-sale investments	—	12,906	4,155	7,487	7,328	—	31,876
— Debt securities at fair value through profit or loss	—	2,470	863	1,090	390	—	4,813
Others	264	790	1,063	120	37	14,077	16,351
Total assets	53,020	138,335	190,820	97,309	71,485	43,633	594,602
Liabilities							
Amounts due to central bank	—	—	240	—	—	—	240
Amounts due to banks and other financial institutions	20,230	2,285	692	2,810	2,004	—	28,021
Deposits from customers	288,516	107,268	80,730	50,507	3,552	—	530,573
Subordinated debts/bonds issued	—	—	—	6,000	—	—	6,000
Others	277	4,548	376	70	42	1,230	6,543
Total liabilities	309,023	114,101	82,038	59,387	5,598	1,230	571,377
Long/(short) position	(256,003)	24,234	108,782	37,922	65,887	42,403	23,225

	31 December 2006						
	Overdue/ repayable on demand	Less than three months	Between three months and one year	Between one and five years	More than five years	Undated	Total
Assets							
Cash and balances with central bank (note (i))	32,727	15,970	—	—	—	41,923	90,620
Amounts due from banks and other financial institutions	10,060	29,563	2,935	692	—	—	43,250
Loans and advances to customers (note (ii))	6,838	93,821	196,638	96,238	59,846	—	453,381
Investments (note (iii))							
— Held-to-maturity debt securities	—	10,105	20,333	24,021	13,737	—	68,196
— Available-for-sale investments	434	4,579	11,443	7,416	7,294	337	31,503
— Debt securities at fair value through profit or loss	—	70	3,528	938	189	—	4,725
Others	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							
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
Deposits from customers	293,084	160,127	119,650	41,877	3,674	—	618,412
Subordinated debts/bonds issued	—	—	—	6,000	6,000	—	12,000
Others	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

Notes:

(i) For cash and balances with central bank, undated amount represents statutory deposit reserve funds and fiscal balances maintained with the PBOC.

(ii) For loans and advances to customers, overdue amount included in the above "overdue/repayable on demand" category represents loans of which the whole or part of the principals was overdue, or interest was overdue for more than 90 days but for which principal was not yet due. The overdue amount is stated net of appropriate allowances for impairment losses.

(iii) For debt securities held for trading purposes, the remaining term to maturities does not represent the Group's intention to hold them to final maturity.

(f) Operational risk

Operational risk includes the risk of direct or indirect loss due to an event or action causing failure of technology, processes, infrastructure and personnel, and other risks having an operational impact.

The Group manages this risk through a control-based environment by establishing a framework of policies and procedures in order to identify, assess, control, manage and report risks. The framework covers all business functions ranging from finance, credit, accounting, settlement, savings, treasury, intermediary business, computer applications and management, special assets resolution and legal affairs. This has allowed the Group to identify and address comprehensively the operational risk inherent in all key products, activities, processes and systems. Key controls include:

— authorisation limits for various business activities to branches and functions are delegated after consideration of their respective business scope, risk management capabilities and credit approval procedures. Such authorities are revised on a timely basis to reflect changes in market conditions and business development and risk management needs;

— the use of the single legal responsibility framework and strict disciplinary measures in order to ensure accountability;

— systems and procedures to identify, control and report on the major risks: credit, market, liquidity and operational;

— promotion of a risk management culture throughout the organisation by building a team of risk management professionals, providing formal training and having an appraisal system in place, to raise the overall risk awareness among the Group's employees;

— from December 2002 onwards, the Accounting Department was appointed to be responsible for overseeing that cash management and account management are in compliance with the relevant regulations, and for improving training on anti-money laundering to ensure our staff are well-equipped with the necessary knowledge and basic skills;

— the review and approval by senior management of comprehensive financial and operating plans which are prepared by branches;

— the assessment of individual branches' financial performance against the comprehensive financial and operating plan; and

— the maintenance of contingent facilities (including backup systems and disaster recovery schemes) to support all major operations, especially back office operations, in the event of an unforeseen interruption. Insurance cover is arranged to mitigate potential losses associated with certain operational events.

In addition to the above, the Bank's Internal Audit Department, which directly reports to the Internal Audit Committee, examines and independently evaluates its risk management policies and procedures and internal controls. The Internal Audit Committee is under the direct supervision of the Executive Management Committee led by the President of the Bank.

The Internal Audit Committee determines the frequency and priority of audits of the Bank's different operating units and branches based on their assessment of the level of risk of those units and branches.

35 Fair value

(a) Financial assets

The Group's financial assets mainly include cash, amounts due from central bank, banks and other financial institutions, loans and advances to customers, and investments.

Amounts due from central bank, banks and other financial institutions

Amounts due from central bank, banks and other financial institutions are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate the fair values.

Loans and advances to customers

Loans and advances to customers are mostly priced at floating rates close to the PBOC rates. Accordingly, their carrying values approximate the fair values.

Investments

Available-for-sale investments and trading debt securities are stated at fair value in the balance sheet. The following table summarises the carrying values and the fair values of held-to-maturity debt securities which are not presented on the balance sheet at their fair values.

	Carrying values			Fair values		
	31 December			31 December		
	2004	2005	2006	2004	2005	2006
Held-to-maturity debt securities	61,370	67,727	68,196	61,272	68,068	68,453

(b) Financial liabilities

The Group's financial liabilities mainly include amounts due to banks and other financial institutions, deposits from customers and subordinated debts/bonds issued. The carrying values of financial liabilities approximated their fair values at the balance sheet date.

36 Significant accounting estimates and judgments

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgments are also made during the process of applying the Group's accounting policies.

(a) Impairment losses on loans and advances

Loan portfolios are assessed periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan. It also includes observable data indicating adverse changes in the repayment status of borrowers in the loan portfolio or national or local or economic conditions that correlate with defaults on the loans in the portfolio. The impairment loss for a loan that is individually evaluated for impairment is the decrease in the estimated future cash flow of that loan.

When loans and advances are collectively evaluated for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management review the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

(b) Impairment of available-for-sale equity investments

For available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgment is required when determining whether a decline in fair value has been significant or prolonged. In making this judgment, the historical data on market volatility as well as in the share price of the specific equity investment are taken into account. The Group also takes into account other factors, such as industry and sector performance and financial information regarding the investee.

(c) Fair value of financial instruments

The fair values for those financial instruments, where no quoted prices from an active market exist, are established by using valuation techniques. These techniques include using recent arm's length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis and option pricing models. The Group has established a process to ensure that valuation techniques are constructed by qualified personnel and are validated and reviewed by personnel independent of the area that constructed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. Valuation models established by the Group make the maximum use of market inputs and rely as little as possible on Group-specific data. However, it should be noted that some inputs, such as credit and counterparty risk, and risk correlations, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary.

(d) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments if the Group has the intention and ability to hold them until maturity. In evaluating whether the requirements to classify a financial asset as held-to-maturity are met, management make significant judgments. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(e) Income taxes

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations.

Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised. Management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

37 Related parties

CITIC Group, the majority shareholder of the Bank, is a state-owned company established in the PRC in 1979. CITIC Group's core businesses include operations in the financial, industrial and service industries in the PRC and internationally. The Group's related party transactions are those transactions between the Group and CITIC Group and its subsidiaries, which include CIFH the other shareholder of the Bank.

(a) Related party transactions

During the relevant periods, the Group entered into transactions with related parties in the ordinary course of its banking business including lending, investment, deposit and off-balance sheet transactions. The banking transactions were priced at the relevant market rates prevailing at the time of each transaction. Interest rates on loans and deposits are required to be set in accordance with the benchmark rates set by the PBOC.

Transactions during relevant periods and the corresponding balances outstanding at the balance sheet date are as follows:

	For the year ended 31 December 2004			
		Fellow subsidiaries		
	Ultimate holding company	CIFH and its subsidiaries	Others	Subsidiaries (note(i))
Interest income	171	1	138	19
Interest expense	(92)	—	(49)	—
Management fee to CITIC Group	(300)	—	—	—
Other service fees	—	(15)	(10)	—
Loan impairment losses release	—	—	15	—

	For the year ended 31 December 2005			
		Fellow subsidiaries		
	Ultimate holding company	CIFH and its subsidiaries	Others	Subsidiaries (note(i))
Interest income	176	2	112	20
Interest expense	(50)	—	(49)	—
Management fee to CITIC Group	(500)	—	—	—
Other service fees	—	(4)	(11)	—
Loan impairment losses release	—	—	89	—

	For the year ended 31 December 2006			
		Fellow subsidiaries		
	Ultimate holding company	CIFH and its subsidiaries	Others	Subsidiaries (note(i))
Interest income	119	4	105	33
Fee and commission income and other income	—	—	10	—
Interest expense	(68)	—	(148)	—
Management fee to CITIC Group	(750)	—	—	—
Other service fees	—	—	(82)	(21)

	31 December 2004			
		Fellow subsidiaries		
	Ultimate holding company	CIFH and its subsidiaries	Others	Subsidiaries (note(i))
Gross loans and advances to customers	2,680	10	3,689	110
Less: Impairment allowances	—	—	(814)	—
Net loans and advances to customers	2,680	10	2,875	110
Gross amounts due from banks and other financial institutions	—	43	129	541
Less: Impairment allowances	—	—	(50)	—
Net amounts due from banks and other financial institutions	—	43	79	541
Investments	1,110	66	—	33
Deposits from customers	2,513	1	1,492	16
Amounts due to banks and other financial institutions	—	—	2,287	—
Others	38	2	178	3
Off-balance sheet transactions				
Guarantees and letters of credit	527	—	234	—
Acceptances	—	—	16	—
Guarantees for loans to third parties	—	—	176	—

	31 December 2005			
		Fellow subsidiaries		
	Ultimate holding company	CIFH and its subsidiaries	Others	Subsidiaries (note (i))
Gross loans and advances to customers	2,620	—	2,848	106
Less: Impairment allowances	—	—	(725)	—
Net loans and advances to customers	2,620	—	2,123	106
Gross amounts due from banks and other financial institutions	—	320	98	463
Less: Impairment allowances	—	—	(50)	—
Net amounts due from banks and other financial institutions	—	320	48	463
Investments	908	65	—	33
Deposits from customers	2,428	1	3,692	25
Amounts due to banks and other financial institutions	—	—	1,039	—
Others	37	2	59	—
Off-balance sheet transactions				
Guarantees and letters of credit	604	—	171	—
Acceptances	—	—	—	—
Guarantees for loans to third parties	—	—	210	—

	31 December 2006			
		Fellow subsidiaries		
	Ultimate holding company	CIFH and its subsidiaries	Others	Subsidiaries (note (i))
Gross loans and advances to customers	540	—	1,733	—
Less: Impairment allowances	—	—	—	—
Net loans and advances to customers	540	—	1,733	—
Gross amounts due from banks and other financial institutions	—	70	127	472
Less: Impairment allowances	—	—	(50)	—
Net amounts due from banks and other financial institutions	—	70	77	472
Investments	324	—	—	33
Other assets	4	—	7	4
Deposits from customers	3,089	1	2,121	4
Amounts due to banks and other financial institutions	—	—	10,963	—
Other liabilities	11	—	14	—
Off-balance sheet transactions				
Guarantees and letters of credit	372	—	11	—
Acceptances	—	—	1	—
Guarantees for loans to third parties	—	120	101	—

Notes:

(i) The related party transactions between the Bank and the subsidiaries are eliminated on consolidation.

(ii) The Bank sold performing related party loans with an aggregate outstanding principal of RMB 2,000 million to another domestic commercial bank for the same amount in cash on 30 June 2006. These loans were included in loans and advances to customers before they were derecognized from the balance sheet of the Bank from the date of sale.

(iii) The Bank disposed of impaired loans due from related parties with an aggregate outstanding principal of RMB 1,142 million and a net book value of RMB 417 million in cash on 26 June 2006. The loans were sold in a public auction to the CITIC Group at their net book value. These loans were included in loans and advances to customers before they were derecognized from the balance sheet of the Bank from the date of sale.

(iv) In June 2006, the Bank transferred equity investments with net book value of RMB 10 million to CITIC Asset Management Company limited ("CAM"), a fellow subsidiary of the Bank. Included in the amount transferred, investments with net book value of RMB 6 million were sold to CAM through a public auction for a cash consideration of RMB 6 million; investments with net book value of RMB 4 million were sold to CAM for a cash consideration of RMB 4 million in accordance with an agreement signed between the Bank and CAM.

(b) Key management personnel and their close family members and related companies

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors, Supervisors and Executive Officers.

The Group enters into banking transactions with key management personnel and their close family members and those companies controlled or significantly influenced by them in the normal course of business. In the opinion of the Directors, other than the total amounts of loans to directors, supervisors and officers as disclosed in Note 11, there are no material transactions and balances between the Group and these individuals or those companies controlled or significantly influenced by them.

The aggregate of the compensations in respect of Directors and Supervisors is disclosed in Note 9. The Executive Officers' compensations during the years are as follows:

	Years ended 31 December		
	2004	**2005**	**2006**
Salaries and other emoluments	2	2	1
Discretionary bonuses	7	11	9
Contributions to defined contribution retirement schemes	1	1	1
	10	14	11

(c) Contributions to defined contribution retirement schemes

The Group participates in defined contribution retirement schemes organised by municipal and provincial governments for its employees in Mainland China.

The Group has also established a supplementary defined contribution plan for its qualified employees. The plan is administered by CITIC Group.

The Group is also required to make contributions to the Mandatory Provident Fund Scheme for its employees in Hong Kong at the rate set up by the local laws and regulations.

The details of the Group's defined contribution retirement schemes are described in Notes 23(a) and 24(a).

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

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC Government through its government authorities, agencies, affiliations and other organizations ("state-owned entities").

Transactions with other state-owned entities include but are not limited to the following:

— lending and deposit taking;

— taking and placing of inter-bank balances;

— entrusted lending and other custody services;

— insurance and securities agency, and other intermediary services;

— sale, purchase, underwriting and redemption of bonds issued by other state-owned entities;

— purchase, sale and leases of property and other assets; and

— rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits and commission income. The pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationships, the Directors are of opinion that none of these transactions are material related party transactions that require separate disclosure.

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the accounting period ended 31 December 2006

Up to the date of issue of this Accountants' Report, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2006 and which have not been adopted in the Financial Information:

		Effective for accounting periods beginning on or after
IFRS 7	Financial Instruments: Disclosures	1 January 2007
Amendment to IAS 1	Presentation of Financial Statements: Capital Disclosures	1 January 2007
IFRS 8	Operating Segments	1 January 2009

The Group has assessed the impact of these amendments, new standards and new interpretations and concluded that they would only affect the level of details in the disclosure of the Financial Information, and would not have financial impact nor result in a change in the Group's accounting policies.

39 Events after the Balance Sheet Date

(a) Strategic investors

With the approval from the CBRC dated 28 February 2007 (Yin Jian Fu [2007] No. 85) and the agreement signed between CITIC Group and Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA") regarding BBVA's investment in the Bank, CITIC Group sold 1,502,763,281 shares of the Bank to BBVA on 1 March 2007. After the transaction, the ownership of the share capital of the Bank is as follows:

Shareholder's name	Shares owned	Percentage of ownership
CITIC Group	24,891,438,919	80.00%
CIFH	4,718,909,200	15.17
BBVA	1,502,763,281	4.83
Total	31,113,111,400	100.00%

(b) New income tax law

On 16 March 2007, the Fifth Session of the Tenth National People's Congress passed the unified enterprise income tax law. Pursuant to the unified income tax law, the income tax rate that is applicable to the Bank in the Mainland China will be reduced from 33% to 25% effective from 1 January 2008. The Group did not adopt the reduced income tax rate when preparing its financial statements for the year ended 31 December 2006 as the above change in income tax law constitutes a non-adjusting post balance sheet event. The Group is in the process of collecting information to assess the impact on the financial statements position as a result of the above changes in the enterprise income tax law.

(c) Profit distribution

As stated in Note 1(a)(ii), in accordance with the relevant PRC rules and regulations, CITIC Group is entitled to the net profit made by CNCB between 31 December 2005 and the date of the Bank's incorporation. In accordance with the board resolution on 8 March 2007 and the extraordinary general meeting of shareholders held on the same day, the Bank distributed RMB 726 million from the retained earnings as at 31 December 2006 in cash to CITIC Group.

Yours faithfully,

KPMG
Certified Public Accountants
Hong Kong, China