ICBC

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED

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

Stock Code: 1398

2007 Annual Report

Company Profile

Industrial and Commercial Bank of China Limited (hereinafter referred to as "ICBC" or "the Bank"), formerly known as Industrial and Commercial Bank of China, was established on 1 January 1984. On 28 October 2005, the Bank was wholly restructured to a joint-stock limited company and renamed as "Industrial and Commercial Bank of China Limited". On 27 October 2006, the Bank was listed on both the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited, marking the historic transcendence of ICBC from a wholly state-owned commercial bank first to a joint-stock commercial bank and then to an international public shareholding company.

ICBC has a leading market position in China and boasts an excellent customer base, a diversified business structure, robust creativity and competitiveness and outstanding brand value. The Bank provides extensive financial products and services to 2.72 million corporate banking customers and 170 million personal banking customers by virtue of the distribution network consisting of 16,476 domestic institutions, 112 overseas institutions and over 1,400 correspondent banks worldwide as well as an e-banking network inclusive of a range of online and telephone banking services, 4,890 self-service banking centers and 23,420 ATMs.

CONTENTS

Important Notice

The Board of Directors, the Board of Supervisors, directors, supervisors and senior management members of Industrial and Commercial Bank of China Limited undertake that the information stated in this report contains no false record, misleading statement or material omission, and assume joint and several liabilities as to the authenticity, accuracy and completeness of the content.

The First Board of Directors of the Bank has in its 33rd meeting held on 25 March 2008 reviewed and adopted the 2007 Annual Report and the Results Announcement. All directors attended the meeting.

The 2007 financial statements of the Bank are prepared in accordance with CASs and IFRSs. These have been audited by Ernst & Young Hua Ming and Ernst & Young, respectively, based on Chinese and International Standards on Auditing, and standard unqualified auditors' reports thereon have been issued.

Board of Directors of Industrial and Commercial Bank of China Limited

25 March 2008

Jiang Jianqing, the legal representative of the Bank, Yang Kaisheng, the person in charge of the finance of the Bank, and Gu Shu, the person in charge of the finance and accounting department, declare and guarantee the authenticity and completeness of the financial statements in the Annual Report.

Corporate Information

Legal name in Chinese

中國工商銀行股份有限公司(「中國工商銀行」)

Legal name in English

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED ("ICBC")

Legal representative

Jiang Jianqing

Registered and office address

No. 55 Fuxingmennei Avenue, Xicheng District, Beijing, PRC
Postal Code: 100032
Internet Website: www.icbc.com.cn
www.icbc-ltd.com

Principal place of business in Hong Kong

ICBC Tower, 3 Garden Road, Central, Hong Kong

Authorized representatives

Yang Kaisheng, Pan Gongsheng

Secretary to the Board

Pan Gongsheng
Address: No. 55 Fuxingmennei Avenue, Xicheng District, Beijing, PRC
Telephone: 86-10-66108608
Facsimile: 86-10-66106139
E-mail: ir@icbc.com.cn

Qualified accountant

Yeung Manhin

Selected newspapers for disclosure

A Share: China Securities Journal, Shanghai Securities News, Securities Times
H Share: Hong Kong Economic Journal, Hong Kong Commercial Daily, Hong Kong Economic Times, South China Morning Post

Website designated by China Securities Regulatory Commission for publication of annual report in respect of A shares

www.sse.com.cn

The "HKEx news" website of The Stock Exchange of Hong Kong Limited for publication of Annual Report in respect of H shares

www.hkexnews.hk

Legal advisors

• Mainland China

King & Wood Law Firm
40/F, Office Tower A, Beijing Fortune Plaza, 7 East 3rd Ring Middle Road, Chaoyang District, Beijing, PRC

• Hong Kong, China

Linklaters
10/F, Alexandra House, Chater Road, Central, Hong Kong

Compliance advisors

China International Capital Corporation (Hong Kong) Limited
Merrill Lynch Far East Limited

Share registrars

• A Share

China Securities Depository and Clearing Corporation Limited, Shanghai Branch
36/F, China Insurance Building, 166 Lujiazui Dong Road, Pudong New Area, Shanghai, PRC

• H Share

Computershare Hong Kong Investor Services Limited
1806–1807, 18/F, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong

Location where copies of this Annual Report are kept

Office of the Board of Directors of the Bank

Place where shares are listed, stock name and stock code

• A Share

Shanghai Stock Exchange
Stock name : 工商银行
Stock code : 601398

• H Share

The Stock Exchange of Hong Kong Limited
Stock name : ICBC
Stock code : 1398

Other relevant information of the Bank

Date of change of registration: 3 April 2007
Registration authority: State Administration for Industry and Commerce, PRC
Corporate business license number: 1000001000396
Financial license institution number: B0001H111000001
Tax registration certificate number: Jing Shui Zheng Zi 110102100003962
Organization code: 10000396-2

Name and address of auditors

• Domestic auditors

Ernst & Young Hua Ming
Level 16, Ernst & Young Tower (Tower E3), Oriental Plaza, No. 1 East Chang An Avenue, Dongcheng District, Beijing, PRC

• International auditors

Ernst & Young
18/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong

This Annual Report is prepared in both Chinese and English. Should there be any discrepancy between the Chinese and English versions, the Chinese version shall prevail.

Financial Highlights

(Financial data and indicators recorded in this Annual Report are prepared in accordance with IFRSs and, unless otherwise specified, are consolidated amounts of the Bank and its subsidiaries and denominated in Renminbi.)

Financial Data

	2007	2006	2005
Annual Operating Results (In RMB millions)			
Net Interest Income[(1)]	224,465	163,542	153,603
Net Fee and Commission Income	34,384	16,344	10,546
Operating Income	256,029	181,638	171,620
Allowance for Impairment Losses	37,406	32,189	27,014
Operating Expenses	103,261	77,397	81,585
Operating Profit	115,362	72,052	63,021
Profit Before Tax	115,378	72,065	63,026
Profit After Tax	82,254	49,880	38,019
Net Profit Attributable to Equity Holders of the Parent Company	81,520	49,263	37,555
Net Cash Flow Generated from Operating Activities	296,129	382,271	367,494
As at the End of Reporting Period (In RMB millions)			
Total Assets	8,683,712	7,508,751	6,456,131
Total Loans and Advances to Customers	4,073,229	3,631,171	3,289,553
Allowance for Impairment Losses of Loans	115,687	97,193	83,692
Net Investment in Securities	3,107,328	2,860,798	2,305,689
Total Liabilities	8,140,036	7,037,750	6,196,255
Due to Customers	6,898,413	6,326,390	5,736,866
Due to Banks and Other Financial Institutions	805,174	400,318	232,910
Equity Attributable to Equity Holders of the Parent Company	538,371	466,464	255,839
Net Capital Base	576,741	530,805	311,844
Net Core Capital Base	484,085	462,019	255,586
Supplementary Capital	94,648	69,650	56,846
Risk-weighted Assets[(2)]	4,405,345	3,779,170	3,152,206
Per Share Date (In RMB)			
Net Assets Per Share[(3)]	1.61	1.40	1.03
Basic Earnings Per Share	0.24	0.18	0.15
Diluted Earnings Per Share	0.24	0.18	0.15
Net Cash Flow Per Share from Operating Activities	0.89	1.14	1.48
Credit Rating			
S&P[(4)]	A–/Positive	BBB+/Positive	BBB+/Stable
Moody’s[(4)]	A1/Stable	A2/Positive	A2/Stable

Financial Indicators

	2007	2006	2005
Profitability (%)			
Return on Average Total Assets[5]	1.02	0.71	0.66
Return on Weighted Average Equity[6]	16.23	15.37	N/A
Net Interest Spread[7]	2.67	2.32	2.58
Net Interest Margin[8]	2.80	2.41	2.61
Return on Risk-weighted Assets[9]	2.01	1.44	N/A
Ratio of Net Fee and Commission Income to Operating Income	13.43	9.00	6.14
Cost-to-income Ratio[10]	34.66	36.32	40.09
Asset Quality (%)			
Non-Performing Loans ("NPL") Ratio[11]	2.74	3.79	4.69
Allowance to NPL[12]	103.50	70.56	54.20
Total Loan Reserve Ratio[13]	2.84	2.68	2.54
Capital Adequacy (%)			
Core Capital Adequacy Ratio[14]	10.99	12.23	8.11
Capital Adequacy Ratio[14]	13.09	14.05	9.89
Total Equity to Total Assets Ratio	6.26	6.27	4.03
Risk-weighted Assets to Total Assets Ratio	50.73	50.33	48.83

Notes: (1) Please refer to the section headed "Five-Year Financial Summary" for the basis of calculation of net interest income.

(2) Being risk-weighted assets and market risk capital adjustment. Please refer to "Discussion and Analysis — Capital Management".

(3) Calculated by dividing equity attributable to equity holders of the parent company at the end of the reporting period by the number of shares issued at the end of the reporting period.

(4) The rating result represents long-term foreign currency deposits rating/outlook.

(5) Calculated by dividing profit after tax by the average balance of total assets at the beginning and end of the period.

(6) Calculated by dividing profit attributable to equity holders of the parent company by the average balance of equity attributable to equity holders of the parent company which is calculated in accordance with the "Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9 — Computation and Disclosure of Return on Net Assets and Earnings per Share (Amended in 2007)" issued by CSRC.

(7) Calculated by the spread between yield on average balance of interest-generating assets and cost on average balance of interest-bearing liabilities.

(8) Net interest income divided by average balance of interest-generating assets.

(9) Calculated by dividing profit after tax by the average balance of risk-weighted assets and market-risk adjustment at the beginning and end of the period.

(10) Calculated by dividing total operating expenses (less business tax and surcharges) by operating income. Please refer to the section headed "Five-Year Financial Summary" for the basis of calculation of cost-to-income ratio of 2005.

(11) Calculated by dividing the balance of NPL by total balance of loans and advances to customers.

(12) Calculated by dividing allowance for impairment losses on loans and advances by total balance of NPL.

(13) Calculated by dividing allowance for impairment losses on loans and advances by total balance of loans and advances to customers.

(14) Please refer to "Discussion and Analysis — Capital Management".

Five-Year Financial Summary

	2007	2006	2005	2004	2003
Annual Operating Results (In RMB millions)					
Net Interest Income[(1)]	224,465	163,542	153,603	134,728	122,708
Net Fee and Commission Income	34,384	16,344	10,546	8,208	5,624
Operating Income	256,029	181,638	171,620	147,959	132,784
Profit Before Tax	115,378	72,065	63,026	54,411	33,884
Profit After Tax	82,254	49,880	38,019	31,218	22,592
Net Profit Attributable to Equity Holders of the Parent Company	81,520	49,263	37,555	30,863	22,472
As at the End of Reporting Period (In RMB millions)					
Total Assets	8,683,712	7,508,751	6,456,131	5,069,324	4,556,951
Loans and Advances to Customer, Net	3,957,542	3,533,978	3,205,861	3,109,191	2,766,055
Net Investment in Securities	3,107,328	2,860,798	2,305,689	1,230,416	1,044,730
Total Liabilities	8,140,036	7,037,750	6,196,255	5,577,369	5,096,085
Due to Customers	6,898,413	6,326,390	5,736,866	5,176,282	4,706,861
Equity Attributable to Equity Holders of the Parent Company	538,371	466,464	255,839	(511,713)	(540,749)
Per Share Data (In RMB)					
Basic Earnings Per Share	0.24	0.18	0.15	0.12	0.09
Diluted Earnings Per Share	0.24	0.18	0.15	0.12	0.09
Financial Indicators (%)					
Return on Average Total Assets	1.02	0.71	0.66	0.65	N/A
Net Interest Spread	2.67	2.32	2.58	2.54	2.59
Net Interest Margin	2.80	2.41	2.61	2.55	2.59
Ratio of Net Fee and Commission Income to Operating Income	13.43	9.00	6.14	5.55	4.24
Cost-to-income Ratio[(2)]	34.66	36.32	40.09	34.02	38.82
NPL Ratio	2.74	3.79	4.69	21.16	24.24
Allowance to NPL	103.50	70.56	54.20	76.28	77.15
Total Loan Reserve Ratio	2.84	2.68	2.54	16.14	18.70

Notes: (1) Due to changes in the presentation of the financial statements, the "net interest income" of 2007 and 2006 excludes the net interest income from "financial assets and liabilities designated at fair value through profit or loss", while in 2005, 2004 and 2003, all interest income and expenses were included in "net interest income". Accordingly, these items and related indicators are not directly comparable.

(2) Calculated by dividing operating expenses (less business tax and surcharges and expenses in relation to the special government bond for 2003, 2004 and the period ended 30 November 2005) by operating income (less interest income from the special government bond for 2003, 2004 and the period ended 30 November 2005).

Other Financial Indicators

		Regulatory Criteria	31 December 2007	31 December 2006	31 December 2005
Liquidity Ratio (%)(2)	RMB	>=25.0	26.8	48.9	48.9
	Foreign Currency	>=25.0	97.9	84.8	83.4
Loan-to-deposit Ratio (%)(3)	RMB and Foreign Currency	<=75.0	56.3	51.4	51.2
Borrowing and Lending Ratio (%)	RMB Borrowing Ratio(4)		0.7	0.0	0.0
	RMB Lending Ratio(5)		0.3	0.2	0.1
Percentage of Loans to Single Largest Customer (%)(6)		<=10.0	3.1	3.1	5.2
Percentage of Loans to Top Ten Customers (%)(7)			21.1	21.7	35.4

Notes: (1) The regulatory ratios in the table are calculated in accordance with related regulatory requirements and accounting standards. The comparative figures are not restated.

(2) Calculated by dividing year end balance of current assets by year end balance of current liabilities. The scope of current assets and current liabilities has been reduced based on the "Notice on Official Execution of 2007 Off-site Supervisory Information System" issued by CBRC and the liquidity ratio as at the end of 2007 is calculated accordingly.

(3) Calculated by dividing loan balance by deposit balance. Loans exclude discounted bill and deposits exclude fiscal deposits and outward remittance.

(4) It represents the ratio for domestic branches, and is calculated by dividing RMB placements to banks and other financial institutions by RMB deposit balance.

(5) It represents the ratio for domestic branches, and is calculated by dividing RMB net placements with banks and other financial institutions by RMB deposit balance.

(6) Calculated by dividing loans to the single largest customer by net capital base.

(7) Calculated by dividing loans to the top ten customers in aggregate by net capital base.

2007 AWARDS

•THE BANKER

- Bank of the Year 2007 (China)
- Deal of the Year 2007 (Global)
- Cash Management Project
- Deal of the Year 2007 (Asia)
- Deal of the Year 2007 (China)

•GLOBAL FINANCE

- Best Consumer Internet Bank (China)
- Best Sub-Custodian (China)
- Best Online Deposits Acquisition (Global)
- Best Online Deposits Acquisition (Asia)

•THE ASIAN BANKER

- Best State-owned Retail Bank
- Multi-channel Retail Banking

•THE ASSET

- Best Transaction Bank (China)
- Best Domestic Custodian (China)
- Best Cash Management Bank (China)
- Best Bank M&A in Asia

•ASIAMONEY

- Best Managed Company (Large Cap)

•FINANCEASIA

- Best Bank
- Best Cash Management Bank

•THE ECONOMIC OBSERVER

- Most Respectable Enterprise in China

Chairman of the Board of Directors **Jiang Jianqing**

In 2007, in light of the changes in the international financial markets and the opening up of the domestic banking industry, ICBC undertook various initiatives and maintained healthy and rapid development. The Bank achieved commendable operating results in the first full fiscal year as a publicly listed bank and made marked improvement in its corporate governance.

The robust profitability of the Bank has resulted in the rapid growth of corporate value and shareholders' return. The Group has achieved an after-tax profit of RMB82,254 million and a net profit attributable to equity holders of the Bank of RMB81,520 million, representing a growth of 64.9% and 65.5%, respectively, compared to the previous year. The return on average equity and the return on average total assets were 16.23% and 1.02%, respectively, with a corresponding increase of 0.86 and 0.31 percentage point. Earnings per share amounted to RMB0.24 with a growth rate of 33.3%. As at the end of 2007, the Bank has the highest market capitalization among all publicly listed banks in the world, with its capitalization reaching USD338,934 million, representing a growth rate of 35%. The Bank will honour its undertakings set out in the IPO prospectus, and distribute 45%–60% of its distributable profit as dividends in accordance with applicable legal procedures. The retained profit shall be applied to supplement the existing capital base to enable shareholders to benefit from the Bank's high rate of growth in profit.

The thorough implementation of our strategy of operation transformation has made our growth in profit even more sustainable. After its establishment, Industrial and Commercial Bank of China Limited has formulated its new development plan on the basis of the strategy of operation transformation. In 2007, the Bank accelerated the progress of this strategic plan. The optimized deposit structure has enabled the Bank to keep the growth of deposits at a low cost in the cycle of rising market interest rate. With an optimized credit structure, the Bank has managed to increase credit revenue whilst complying with macro-economic policies and maintaining moderate credit growth. Improvement in the investment structure and comprehensive development of the financial market business have brought about substantial increase in income from treasury operation. The rapid development of the intermediary business has further diversified the drivers of growth in income. In 2007, net interest margin of the Bank was 2.80%, representing a year-on-year increase of 0.39 percentage point. The non-credit interest income accounted for 30.47% of the total income, representing a year-on-year increase of 1.69 percentage points. The net fee and commission income has grown by 110.4%, accounting for 13.43% of operating income, representing a year-on-year increase of 4.43 percentage points. These figures reflected the improvement in the Bank's operating structure and the rapid growth of emerging businesses. At the same time, the enhanced capital base after its listing has enabled the Bank to make further progress in implementing the strategies of comprehensive operation and global development. Last year, we were the first domestic commercial bank to set up a financial leasing company. We successfully acquired 79.9333% of Seng Heng Bank, the largest local bank in Macau, and 20% of Standard Bank of South Africa, the largest commercial bank in Africa. We also entered into new markets such as Russia and Indonesia. The businesses of the Bank under the non-banking license have extended to areas such as investment banking, funds and financial leasing. With 112 overseas institutions, the Bank has formed a global service network covering major international financial centers and the main regions trading with China. The inter-market and global businesses have created synergies and are becoming new drivers for our growth in profit.

Improvement in services has further reinforced our competitiveness. We have designated the first year after our listing as the "Year of Quality Services", featuring more systematic improvement and innovations in business processes, distribution channels, IT systems, management systems, service modes and product varieties. Through better services, customers could experience the proactive changes to the Bank after our listing. By providing a range of financial products and strengthening our ability to create value for customers, we have consolidated and expanded our business advantage in the competitive global financial industry. Through continuous efforts, services provided by the Bank are getting increasingly closer to meeting the expectations of our customers. We are getting closer to becoming the domestic financial enterprise which provides the best services.

The continuous improvement in our corporate governance resulted in our refined modern financial enterprise system. Last year, the Bank further amended the Articles of Association and the Rules of Procedures for the Shareholders' General Meeting, the Board of Directors and the Board of Supervisors in accordance with the regulatory requirements of domestic and overseas regulatory authorities and our internal development needs as a listed company, thereby improving the structure and efficiency in the operations of the three organs above and our senior management. Mr. Xu Shanda was elected as an independent director, and corresponding adjustment and enhancement of the special committees under the Board of Directors were made. Mr. Xu has researched in the areas of macro-economics, finance, government finance and tax for a long period of time. Not only is he the recognized expert in finance and tax theories, he is also the designer and promoter of the reform of the taxation system in China. Mr. Xu will introduce new experiences to the Board of Directors in enhancing the decision-making process and supervisory functions. The refinement of our corporate governance structure has further contributed to the systematic reform of our management system and the operating mechanism. Last year, the Bank achieved significant progress in the reform of areas including comprehensive risk management, decentralized branch management, human resources management, centralized financial management and business operational management. The operating capabilities, momentum of development and control of risk for the whole bank have been enhanced further.

Corporate social responsibilities are part of our development strategy. We believe in the integration of the "economic person" and the "social person". Whilst striving to create profit and being responsible to shareholders, we recognize and bear responsibility for the society and the environment. The Bank is the pioneer among domestic banks to advocate the concept of "Green Credit Policy" through the launch of corresponding policies and measures to impose strict limitation on credit offered to enterprises with high pollution and high energy consumption. The Bank also gives appropriate funding support to those involved in energy saving and environmental protection, in order to promote economic and social development that is harmonious with the natural environment. The Bank insists on running operations in compliance with laws and regulations and with integrity, and actively fulfills its obligations for anti-money laundering to maintain financial safety and stability. The Bank's concerns for people's welfare and public interests have won respect and trust from society. From this year onwards, the Bank will publish social responsibility reports periodically to present the different aspects of social responsibilities performed by the Bank in relation to shareholders, staff, customers, people's welfare and environmental protection.

The commendable operating performance of the Bank in its first year after listing has been widely acclaimed by financial media worldwide. *The Banker*, *Global Finance*, *The Asset* and *Finance Asia* have awarded the Bank as the "Bank of the Year 2007 (China)", the "Best Consumer Internet Bank (China)", the "Best Domestic Custodian (China)" and the "Best Cash Management Bank". The *Economic Observer* has rated the Bank as the "Most Reputable Enterprise in China". International rating agencies have repeatedly upgraded the rating for the Bank. In particular, Moody's and Standard & Poor's have upgraded our long-term credit rating to "A1" and "A-", respectively.

All the results and progress which the Bank has achieved over its first year after listing are attributed to the supervision and assistance from the regulatory authorities, the trust and support from investors, customers and members of the general public, and inevitably the diligence and contribution from our staff. I would like to express my heart-felt thanks on behalf of the Board of Directors of Industrial and Commercial Bank of China.

In 2008, the Bank will complete its first 3-year development plan after restructuring, and will formulate the strategic plan for the next period. The main themes for the new year and the new phase are to enhance competitiveness, upgrade corporate governance and expedite the establishment of a first-class international modern financial enterprise in every aspect. The Bank will continue to refine its corporate governance structure, reinforce risk management and internal control and expedite the formation of a system that is well governed, energetic, efficient and favorable to scientific development. The Bank will continue to promote the transformation of development methods, explore new drivers for profit growth, adjust the business and income structure in every aspect, and extend the cycle of high profit growth by transforming its operations. We will continue to pursue the direction of acquisition as well as application for new organizations, and optimize our comprehensive and global development framework to establish an inter-market and global operating network featuring coherence, appropriate positioning, diversified channels and highly efficient operations.

This is a new year with new expectations. Although the current crisis of sub-prime mortgage on the international financial market is still continuing and the changes in the domestic economic situation have brought about new challenges, Industrial and Commercial Bank of China, having undergone reform and transformation, has strengthened significantly. Moreover, the Bank will continue to better equip itself to overcome various difficulties at ease in order to obtain better results for those who supported us with their trust.

Chairman: Jiang Jianqing

25 March 2008

President **Yang Kaisheng**

In 2007, the Management of the Bank implemented the resolutions of the Shareholders' General Meeting in earnest, proactively put the strategic decisions of the Board of Directors into action and was guided by the supervision of the regulatory authorities. The Bank managed to grasp the opportunities presented in a dynamic domestic and international economic and financial environment, coped with various challenges and delivered a set of good operating results. This Annual Report is the Bank's answer to the investor community, the regulatory authorities at various levels and all sectors of society caring about the business development of Industrial and Commercial Bank of China for the Bank's first full year after its listing. Those who read this report would find out that the Bank has five outstanding accomplishments in its operating development at this new starting point:

Profitability has sustained significant growth. Profit after tax in 2007 reached a record high of RMB82,254 million, representing an increase of 64.9% as compared to last year. The compound annual growth rate of profit after tax exceeded 38% since 2003, when the Bank was audited by international auditors for the first time. Interest income and non-interest income both achieved substantial growth. In particular, net interest income increased by 37.3%, and net fee and commission income grew by 110.4%. The cost-to-income ratio stood at 34.66%, remaining at a reasonable level.

Credit structure has been optimized. The Bank has maintained a prudent and moderate credit policy. In 2007, RMB loans increased by RMB350,063 million, representing a growth of 10.3%, which is similar to the growth recorded in the year before. While moderating loan growth, the Bank has also comprehensively modified its credit structure through strengthening the coordination between the implementation of the industrial credit policy and sector policy and optimizing the credit portfolio structure and customer portfolio strategically. The Bank reduced the amount of loans granted to low quality enterprises engaged in high pollution, high energy consumption and excessive production capacity industries while increasing loans granted to key infrastructure, modernised manufacturing, innovative services, innovation, energy-saving and environmental protection industries. The Bank also allocated more credit resources to the high-return and strategic business segments such as small enterprises and consumer lending, and the increase in loans to small enterprises and retail customers accounted for 55.2% of the increase in the total loans.

Financial market and intermediary business have experienced rapid growth. The Bank strived for promoting transformation in the course of its development. Through transformation, the level and quality of the Bank's development is enhanced. Whilst conducting high quality credit business and maintaining stable growth of income from interest spread between loans and deposits, the Bank took advantage of the rapid development in the capital market and the innovative financial environment to accelerate its advancement into more diversified businesses. In financial markets, the Bank has improved its investment strategy in bonds in response to market changes. In cooperation with strategic investors such as Goldman Sachs, the Bank launched the research and development of derivatives and expanded the size of trading business to further increase the return on non-credit assets, which accounted for 54.4% of the total assets. In particular, the yield on the investment in securities not related to restructuring reached 3.48% with a year-on-year increase of 0.65 percentage point. In the intermediary business area, as the Bank maintained its strength in the traditional businesses of settlement and agency, the Bank has also achieved development beyond expectations in various emerging intermediary businesses. The sales of various wealth management products amounted to RMB1,233.9 billion, a year-on-year growth of 181.7%. The number of bank cards issued reached 210 million, representing a net increase of 21.49 million; and related consumption amount totaled RMB616.2 billion at a growth rate of 66.5%. Furthermore, the number of credit cards issued and related consumption amount reached 23.38 million and RMB161.9 billion, respectively. The Bank has kept its leading position among the peers. The income from investment banking also reached RMB4,505 million, with a growth rate of 45.4%. Total net value of assets under custody reached RMB1,316 billion, an increase of 1.8 times over last year, pioneering a breakthrough of the RMB1,000 billion mark in China.

Services have undergone further improvements in quality. The Bank placed emphasis on the overall reform of the process in personal banking services, which clearly enhanced services efficiency. The Bank invested RMB2 billion specifically for the improvement and upgrade of branches. Specifically, the Bank has established 1,112 VIP wealth management centers and 3,057 general wealth management centers with dedicated functions. The Bank has also installed 3,498 sets of new ATMs, 2.1 times of last year, leading to a total of 23,420 sets of ATMs, taking the lead among competitors in China. By placing great efforts in developing the electronic distribution channel, the Bank has realized a turnover of RMB102.88 trillion from e-banking business, representing a growth of 127.5%. The ratio of off-counter business increased by 7.1 percentage points year-on-year and reached 37.2%. By accelerating the innovation on financial products, the Bank managed to launch a number of products in meeting customers' needs, such as electronic remittance and overseas wealth management. Currently, the Bank has more than 1,400 kinds of products, and continues to strengthen its financial services provision capabilities.

Level of risk management has been outstandingly upgraded. Through international cooperation, the Bank has made substantial progress in the development of a comprehensive risk management framework and the development and application of advanced risk management techniques, with reference to international experiences. The management of credit risk, market risk, liquidity risk and operational risk was comprehensively enhanced. In particular, the Bank further accelerated the implementation of the New Basel Capital Accord and has already met the requirements for foundation internal rating-based approach. Both the balance and ratio of NPLs have decreased for five consecutive years. As compared to the end of last year, the balance and ratio of NPLs decreased by RMB25,971 million and 1.05 percentage points to RMB111,774 million and 2.74%, respectively. The Bank has also implemented an active provisioning policy. The year-end allowance to NPL reached 103.50%, representing an improvement of 32.94 percentage points. Furthermore, the Bank was not significantly affected by the US sub-prime crisis. As at the end of 2007, the Bank held US sub-prime residential mortgage-backed securities of USD1,226 million in terms of nominal value, all of which were first-lien mortgage-backed securities with credit rating of AA– and above. The Bank has made proper mark-to-market valuations and stringent impairment tests on such securities. Cumulative allowance for impairment losses of USD400 million has been made, which is sufficient to cover the expected losses. The operational risk management of the Bank continued to stand at a prudent level compared to domestic and overseas peers. The Bank has also further enhanced capital management, an integral part of risk management. The allocation of capital has been standardized and capital cost effectiveness has been further enhanced, thereby enabling the Bank to maintain capital adequacy ratio and core capital adequacy ratio at a relatively high level of 13.09% and 10.99%, respectively, while the business is developing rapidly.

In 2008, the banking industry faces new circumstances and the Board of Directors has aimed for higher goals. The Management will earnestly and practically implement the strategic decisions and deployment of the Board of Directors, thereby enhancing its execution capabilities. In 2008, the Bank will establish an annual work reporting system, reporting on the areas of competitiveness, innovation, service, channels, brand, enterprise culture and social responsibilities, thereby developing a more systematic, scientific and efficient approach for strategic execution. The new reporting system will assist the Bank in further defining its goals, delegating responsibilities, optimizing strategies, improving evaluation and assessment, promoting work implementation, creating new competitive advantages as well as producing better operating results, and achieving continuous and stable growth of enterprise value, shareholders' return and employees' benefits.

President: Yang Kaisheng

25 March 2008

Chairman of the Board of Supervisors **Wang Weiqiang**

Details of Changes in Share Capital and Shareholding of Substantial Shareholders

Changes in Share Capital

DETAILS OF CHANGES IN SHARE CAPITAL

Unit: Share

	As at 31 December 2006		Increase/decrease as a result of the change (+, –)	As at 31 December 2007	
	Number of Shares	Percentage (%)	Expiration of the Lock-up Period	Number of Shares	Percentage (%)
I. Shares subject to restriction on sales	292,434,733,026	87.5	-15,250,888,000	277,183,845,026	83.0
1. State-owned shares	236,012,348,064	70.7	0	236,012,348,064	70.7
2. Shares held by other domestic investors	22,221,369,559	6.6	-5,234,610,000	16,986,759,559	5.1
3. Shares held by foreign investors	34,201,015,403	10.2	-10,016,278,000	24,184,737,403	7.2
II. Shares not subject to restriction on sales	41,584,117,000	12.5	15,250,888,000	56,835,005,000	17.0
1. RMB-denominated ordinary shares	6,830,780,000	2.0	5,234,610,000	12,065,390,000	3.6
2. Foreign shares listed overseas	34,753,337,000	10.5	10,016,278,000	44,769,615,000	13.4
III. Total number of shares	334,018,850,026	100.0	0	334,018,850,026	100.0

Notes: (1) Please refer to the table headed "Details of Changes in the Shares subject to Restriction on Sales" for detailed information on changes in share capital during the reporting period.

(2) For the purpose of this table, "State-owned shares" specifically refer to the shares held by MOF and Huijin. "Shares held by other domestic investors" mentioned in this table refer to the shares held by SSF, A share institutional placees and A share strategic investors. "Shares held by foreign investors" mentioned in this table refer to the shares held by overseas shareholders who participated in the global offering of H share of ICBC, and the shares held by overseas strategic investors, including Goldman Sachs, Allianz and American Express. "Foreign shares listed overseas" mentioned in this table, namely H share, are within the same meaning as defined in "No. 5 Standards on the Content and Format of Information Disclosure of Companies with Public Offerings — Content and Format of the Report of Change in Corporate Shareholding" of CSRC (Revised in 2007).

(3) Shares subject to restriction on sales refer to shares held by shareholders who are subject to restriction on sales in accordance with laws, regulations and rules or undertakings.

DETAILS OF CHANGES IN THE SHARES SUBJECT TO RESTRICTION ON SALES

Unit: Share

Name of shareholders	Number of shares subject to restriction on sales at the beginning of the year	Number of shares released from restriction on sales in 2007	Number of additional shares subject to restriction on sales in 2007	Number of shares subject to restriction on sales at year end	Reason for restriction	Release date
A share institutional placees	2,350,000,000	2,350,000,000	0	0	Restriction upon issuance	27 January 2007
A share strategic investors	5,769,220,000	2,884,610,000	0	2,884,610,000	Restriction upon issuance	27 October 2007
H share corporate placement	10,016,278,000	10,016,278,000	0	0	Restriction upon issuance	27 October 2007
Total	18,135,498,000	15,250,888,000	0	2,884,610,000	—	—

DATES ON WHICH SHARES SUBJECT TO RESTRICTION ON SALES BECOME TRADABLE

Unit: Share

Date	Number of shares tradable at the expiry of lock-up period	Outstanding number of shares subject to restriction on sales	Outstanding number of shares not subject to restriction on sales	Remarks
27 April 2008	2,884,610,000	274,299,235,026	56,835,005,000	A share strategic investors
28 April 2009	12,092,368,700	262,206,866,326	59,719,615,000	Goldman Sachs, Allianz and American Express
29 June 2009	7,051,074,779	255,155,791,547	71,811,983,700	SSF
20 October 2009	19,143,443,483	236,012,348,064	78,863,058,479	Goldman Sachs, Allianz, American Express and SSF
27 October 2009	236,012,348,064	0	98,006,501,962	A shares held by MOF and Huijin

The A-share held by MOF and Huijin will not be subject to the 36-month lock-up period after receiving approval of conversion into H-shares from relevant authorities.

PARTICULARS OF TOP 10 HOLDERS OF SHARES SUBJECT TO RESTRICTION ON SALES

Unit: Share

No.	Name of holders of shares subject to restriction on sales	Type of shares	Shares subject to restriction on sales	Date on which shares become tradable	Number of new tradable shares
1	MOF	A share	118,006,174,032	27 October 2009	118,006,174,032
2	Huijin	A share	118,006,174,032	27 October 2009	118,006,174,032
3	Goldman Sachs	H share	16,476,014,155	28 April 2009 20 October 2009	8,238,007,077 8,238,007,078
4	SSF	H share	14,102,149,559	29 June 2009 20 October 2009	7,051,074,779 7,051,074,780
5	DRESDNER BANK LUXEMBOURG S.A. (Allianz holds shares in ICBC through its wholly-owned subsidiary, DRESDNER BANK LUXEMBOURG S.A.)	H share	6,432,601,015	28 April 2009 20 October 2009	3,216,300,507 3,216,300,508
6	American Express	H share	1,276,122,233	28 April 2009 20 October 2009	638,061,116 638,061,117
7	China Life Insurance (Group) Company	A share	320,512,500	27 April 2008	320,512,500
8	China Life Insurance Company Limited	A share	320,512,500	27 April 2008	320,512,500
9	China Pacific Life Insurance Co., Ltd.	A share	320,512,500	27 April 2008	320,512,500
10	China Huarong Asset Management Corporation	A share	240,384,500	27 April 2008	240,384,500

Details of Share Issuance and Initial Public Offering

On 27 January 2006, the Bank entered into share purchase agreements with three foreign strategic investors, namely Goldman Sachs, Allianz and American Express. Pursuant to their respective share purchase agreements, Goldman Sachs, Allianz and American Express subscribed for 16,476,014,155 shares, 6,432,601,015 shares and 1,276,122,233 shares newly issued by the Bank on 28 April 2006 for a consideration of USD2,582.2 million, EUR824.7 million and USD200 million, respectively (on the basis of an agreed exchange rate of one US dollar to RMB8.0304 and one euro to RMB9.8167). On 29 June 2006, the SSF subscribed for 14,324,392,623 shares newly issued by the Bank for a consideration of approximately RMB18 billion.

On 27 October 2006, the Bank was successfully listed in Shanghai and Hong Kong on the same day. The offering prices for A share and H share were RMB3.12 and HKD3.07 per share, respectively. After adjusting for the exchange rate differences between HKD and RMB, the offer prices in Shanghai and Hong Kong are the same. A total of 14,950,000,000 A shares and 40,699,650,000 H shares (including 8,139,930,000 State-owned shares sold on behalf of MOF and Huijin) were offered in the initial public offering. After the initial public offering, the Bank had a total of 334,018,850,026 shares in issue, comprising 250,962,348,064 A shares and 83,056,501,962 H shares.

In 2005, the Bank issued subordinated bonds in the inter-bank bond market. As at the end of 2007, the balance of the subordinated bonds issued by the Bank stood at RMB35,000 million. For information on the issuance of subordinated bonds by the Bank, please refer to Note 37 to the Financial Statements: Subordinated Bonds Payable.

The Bank did not have any employee shares.

Particulars of Shareholders

Particulars of Top 10 Shareholders

Number of Shareholders

As at the end of the reporting period, the Bank had a total of 1,305,804 shareholders, of which 184,089 of them are holders of H shares and 1,121,715 of them are holders of A shares.

Particulars of Shareholding of the Top 10 Shareholders of ICBC (Particulars of shareholding of holders of H shares was based on the number of shares set out in the Bank's Register of members maintained by the H-share registrar)

NUMBER OF SHAREHOLDERS AND PARTICULARS OF SHAREHOLDING

Unit: Share

Total number of shareholders	1,305,804 (number of holders of A Share and H Share on the register of shareholders as at 31 December 2007)

Details of shareholding of top 10 shareholders (based on the number of shareholders on the register of shareholders as at 31 December 2007)

Name of shareholder	Nature of shareholder	Type of shares	Shareholding percentage (%)	Total number of shares held	Number of shares subject to restriction on sales	Number of pledged or locked-up shares
MOF	State-owned shares	A share	35.3	118,006,174,032	118,006,174,032	None
Huijin	State-owned shares	A share	35.3	118,006,174,032	118,006,174,032	None
HKSCC Nominees Limited	Foreign investment	H share	13.1	43,820,162,857	0	Unknown
Goldman Sachs	Foreign investment	H share	4.9	16,476,014,155	16,476,014,155	Unknown
SSF	State-owned shares	H share	4.2	14,102,149,559	14,102,149,559	Unknown
Dresdner Bank Luxembourg S.A. (Allianz holds shares in ICBC through its wholly-owned subsidiary, Dresdner Bank Luxembourg S.A.)	Foreign investment	H share	1.9	6,432,601,015	6,432,601,015	Unknown
American Express	Foreign investment	H share	0.4	1,276,122,233	1,276,122,233	Unknown
China Life Insurance (Group) Company — traditional — ordinary insurance products	Others	A share	0.2	690,027,367	320,512,500	None
China Life Insurance Company Limited — traditional — ordinary insurance products — 005L — CT001 Hu	Others	A share	0.2	633,476,467	320,512,500	None
China Pacific Life Insurance Co., Ltd. — traditional — ordinary insurance products	Others	A share	0.2	547,941,816	320,512,500	None

China Life Insurance Company Limited is a subsidiary of China Life Insurance (Group) Company. Save and except as the aforesaid, the Bank is not aware of any connections between the above shareholders or whether they are parties acting in concert.

PARTICULARS OF SHAREHOLDING OF THE TOP 10 SHAREHOLDERS NOT SUBJECT TO RESTRICTION ON SALES (THE FOLLOWING DATA IS BASED ON THE REGISTER OF SHAREHOLDERS AS OF 31 DECEMBER 2007)

Unit: Share

Name of shareholder	Shares not subject to restriction on sales	Type of shares
HKSCC Nominees Limited	43,820,162,857	H share
China Life Insurance (Group) Company — traditional — ordinary insurance products	369,514,867	A share
China Life Insurance Company Limited — traditional — ordinary insurance products — 005L — CT001 Hu	312,963,967	A share
China Huarong Asset Management Corporation	240,384,500	A share
China Pacific Life Insurance Co., Ltd. — traditional — ordinary insurance products	227,429,316	A share
TURBO TOP LIMITED	220,586,000	H share
ISSAMED INVESTMENTS LIMITED	200,586,000	H share
Dacheng Blue Chip Sustaining Securities Investment Fund	180,000,000	A share
Ping An Life Insurance Company of China, Ltd. — traditional — ordinary insurance products	176,282,000	A share
Boshi Theme Industry Stock Investment Fund	175,045,538	A share

China Life Insurance Company Limited is a subsidiary of China Life Insurance (Group) Company. Based on information publicly disclosed by Cheung Kong (Holdings) Limited and Hutchison Whampoa Limited, as at 31 December 2007, Issamed Investments Limited and Turbo Top Limited were each a wholly-owned subsidiary of Cheung Kong (Holdings) Limited and Hutchison Whampoa Limited, respectively, while Cheung Kong (Holdings) Limited held 49.9% stake in Hutchison Whampoa Limited. Save and except as the aforesaid, the Bank is not aware of any connections between the above Shareholders or whether they are parties acting in concert.

Particulars of the Substantial Shareholders

During the reporting period, the Bank's substantial shareholders and the de facto controller remained unchanged.

Substantial Shareholders

The Bank's largest single shareholders are MOF and Huijin[1], each with an interest of approximately 35.3% of the shares of the Bank, respectively.

MOF, being a constituent part of the State Council, is responsible for overseeing China's fiscal revenue and expenditure and taxation policies at a macro level.

Huijin is a wholly State-owned company with limited liability, which was incorporated on 16 December 2003, in accordance with PRC laws. Huijin had a registered capital of RMB372,465 million as at 31 December 2007, and its legal representative is Hu Xiaolian (pending filing with the Administration for Industry and Commerce in respect of the change of legal representative). Huijin exercises the investor's rights and obligations in the Bank on behalf of the State, and implements and executes China's policies and arrangements relating to the reform of State-owned financial institutions. Huijin does not engage in any other commercial activities.

Particulars of Other Corporate Shareholders Who Hold 10% Shares or More (excluding HKSCC Nominees Limited)

None

Particulars of the De Facto Controller

None

1 For details of the establishment of China Investment Corporation and its relationship with Huijin, please refer to the Bank's announcement dated 9 October 2007.

Directors, Supervisors, Senior Management and Basic Information on Employees and Institutions

Brief Particulars of Directors, Supervisors and Senior Management

DIRECTORS OF THE BANK

Name	Position	Gender	Age	Term of Directors	Shares held at the beginning of the year	Shares held at year end	Reasons for changes	Total remuneration received from the Bank during the reporting period (before tax, in RMB10,000)	Whether or not the remuneration is collected from the shareholder entities or other connected entities
Jiang Jianqing	Chairman, Executive Director	Male	54	October 2005–October 2008	0	0	—	179.5	No
Yang Kaisheng	Vice Chairman, Executive Director, President	Male	58	October 2005–October 2008	0	0	—	171.1	No
Zhang Furong	Executive Director, Vice President	Male	55	October 2005–October 2008	0	0	—	153.3	No
Niu Ximing	Executive Director, Vice President	Male	51	October 2005–October 2008	0	0	—	151.7	No
Fu Zhongjun	Non-Executive Director	Male	50	October 2005–October 2008	0	0	—	0	Yes
Kang Xuejun	Non-Executive Director	Male	56	October 2005–October 2008	0	0	—	0	Yes
Song Zhigang	Non-Executive Director	Male	56	October 2005–October 2008	0	0	—	0	Yes
Wang Wenyan	Non-Executive Director	Male	59	October 2005–October 2008	0	0	—	0	Yes
Zhao Haiying	Non-Executive Director	Female	42	October 2005–October 2008	0	0	—	0	Yes
Zhong Jian'an	Non-Executive Director	Male	48	October 2005–October 2008	0	0	—	0	Yes
Christopher A. Cole	Non-Executive Director	Male	48	June 2006–June 2009	0	0	—	0	Yes
Leung Kam Chung, Antony	Independent Non-Executive Director	Male	55	October 2005–October 2008	0	0	—	51	No
John L. Thornton	Independent Non-Executive Director	Male	53	October 2005–October 2008	0	0	—	45	No
Qian Yingyi	Independent Non-Executive Director	Male	51	October 2005–October 2008	0	0	—	47	No
Xu Shanda	Independent Non-Executive Director	Male	60	September 2007–September 2010	0	0	—	10	No

SUPERVISORS OF THE BANK

Name	Position	Gender	Age	Term of Supervisors	Shares held at the beginning of the year	Shares held at year end	Reasons for changes	Total remuneration received from the Bank during the reporting period (before tax, in RMB10,000)	Whether or not the remuneration is collected from the shareholder entities or other connected entities
Wang Weiqiang	Chairman of the Board of Supervisors	Male	60	October 2005–October 2008	0	0	—	160.4	No
Wang Chixi	Shareholder Supervisor	Female	52	October 2005–October 2008	0	0	—	92.4	No
Wang Daocheng	External Supervisor	Male	67	October 2005–October 2008	0	0	—	30	No
Miao Gengshu	External Supervisor	Male	66	October 2005–October 2008	0	0	—	28	No
Zhang Wei	Employee Supervisor	Male	45	August 2006–August 2009	0	0	—	91.8	No

SENIOR MANAGEMENT OF THE BANK

Name	Position	Gender	Age	Term of Senior Management Members	Shares held at the beginning of the year	Shares held at year end	Reasons for changes	Total remuneration received from the Bank during the reporting period (before tax, in RMB10,000)	Whether or not the remuneration is collected from the shareholder entities or other connected entities
Yang Kaisheng	President	Male	58	October 2005–	0	0	—	171.1	No
Zhang Furong	Vice President	Male	55	October 2005–	0	0	—	153.3	No
Niu Ximing	Vice President	Male	51	October 2005–	0	0	—	151.7	No
Zhang Qu	Vice President	Male	60	October 2005–	0	0	—	154.8	No
Wang Lili	Vice President	Female	56	October 2005–	0	0	—	153.2	No
Li Xiaopeng	Vice President	Male	48	October 2005–	0	0	—	153.3	No
Liu Lixian	Secretary of Party Discipline Committee	Male	53	October 2005–	0	0	—	151.5	No
Yi Huiman	Member of Senior Management of the Head Office, President of Beijing Branch	Male	43	October 2005–	0	0	—	143.6	No
Wei Guoxiong	Chief Risk Officer	Male	52	August 2006–	0	0	—	146	No
Pan Gongsheng	Secretary of the Board of Directors	Male	44	October 2005–	30,000	30,000	—	146.1	No

As at the end of the reporting period, the Bank did not implement share incentives. Directors, supervisors and senior management members of the Bank did not hold any share option or were granted any restricted shares.

Biographical Details of Directors, Supervisors and Senior Management Members

Jiang Jianqing, Chairman & Executive Director

Mr. Jiang has served as Chairman of the Board of Directors and executive director of Industrial and Commercial Bank of China Limited since October 2005. He joined ICBC in 1984, and was appointed as President in February 2000. Mr. Jiang previously served in several positions, including vice president of ICBC Shanghai Branch, president of Shanghai Urban Cooperation Commercial Bank (now known as Bank of Shanghai), president of ICBC Shanghai Branch and Vice President of ICBC. Currently he is also the chairman of the board of directors of ICBC (Asia). He graduated from Shanghai University of Finance and Economics and Shanghai Jiaotong University, and received a Master's degree in engineering and a Doctorate degree in management from Shanghai Jiaotong University.

Yang Kaisheng, Vice Chairman, Executive Director & President

Mr. Yang has served as Vice Chairman of the Board of Directors, executive director and President of Industrial and Commercial Bank of China Limited since October 2005. He joined ICBC in 1985, and was appointed as Vice President in September 1996. He previously served in several positions, including vice director of ICBC Discipline Enforcement Office, director of ICBC Planning & Information Department, president of ICBC Shenzhen Branch, Vice President of ICBC, and president of the China Huarong Asset Management Corporation. He currently serves as chairman of the board of ICBC Credit Suisse Asset Management and deputy director of the 16th Committee of China International Economic and Trade Arbitration Commission. He graduated from Wuhan University with a Doctorate degree in economics.

Zhang Furong, Executive Director & Vice President

Mr. Zhang has served as executive director and Vice President of Industrial and Commercial Bank of China Limited since October 2005. He entered PBOC in 1971 and joined Industrial and Commercial Bank of China in 1984. From 1986 he worked successively as chief of the Accounting Section and vice president of ICBC Liaoning Branch. In 1994, he became vice president of ICBC Liaoning Branch and president of ICBC Dalian Branch. Mr. Zhang became assistant to President of ICBC and general manager of Human Resources Department in 1997 and Vice President of ICBC in 2000. He is also vice president of the Banking Accounting Society of China and deputy director of Financial Planning Standards Council of China. Mr. Zhang graduated from Liaoning Finance and Economics College and received a Master's degree in economics and a Doctorate degree in finance from Dongbei University of Finance and Economics.

Niu Ximing, Executive Director & Vice President

Mr. Niu has served as executive director and Vice President of Industrial and Commercial Bank of China Limited since October 2005. He joined ICBC in 1986 and was appointed as Vice President in November 2002. He previously served in several positions at ICBC including general manager of Industrial and Commercial Credit Department of ICBC, president of ICBC Beijing Branch, and assistant to president of ICBC and president of ICBC Beijing Branch. He graduated from Central Institute of Finance and Banking and received a Master's degree in technology economics from the Harbin Institute of Technology.

Fu Zhongjun, Non-Executive Director

Mr. Fu has served as non-executive director of Industrial and Commercial Bank of China Limited since October 2005. He was appointed as vice ombudsman of Anhui Finance Ombudsman Office of MOF in 2002, and as vice ombudsman of Shanghai Finance Ombudsman Office of MOF in 2000. He previously served in several positions including deputy chief of Chinese Enterprise Division of the Business and Finance Department of MOF, chief of Division One of the Dispatched Institution Management of Finance Supervision Department of MOF, chief of the Central Division Two of Finance Supervision Department of MOF, chief of the Inspection Division Two of Finance Supervision Department of MOF, and chief of the Inspection Division Two of Inspection and Supervision Department of MOF. He graduated from Sichuan University.

Kang Xuejun, Non-Executive Director

Mr. Kang has served as non-executive director of Industrial and Commercial Bank of China Limited since October 2005. He was appointed as director of the Investment Review Center of MOF in 2001. He previously served in several positions including chief of the Statistics and Analysis Division of the Comprehensive and Reform Department of MOF and vice director-general of the Comprehensive Department. He graduated from Tianjin College of Finance and Economics.

Song Zhigang, Non-Executive Director

Mr. Song has served as non-executive director of Industrial and Commercial Bank of China Limited since October 2005. He was appointed as deputy director of the State Agricultural Comprehensive Development Office of MOF in 1998. He previously served in several positions including deputy director of "*China Tax*" in China State Finance Editorial Agency and assistant inspector of the State Agricultural Comprehensive Development Office of MOF. He graduated from Nankai University.

Wang Wenyan, Non-Executive Director

Mr. Wang has served as non-executive director of Industrial and Commercial Bank of China Limited since October 2005. He was appointed as director-general of the Collection Management Department of State Administration of Taxation in 2000. He previously served several positions including director assistant and office director of the Beijing Taxation Bureau, and deputy director of the Beijing Taxation Bureau and deputy director of the Beijing Local Taxation Bureau. He graduated from the Central Institute of Finance and Banking.

Zhao Haiying (Female), Non-Executive Director

Ms. Zhao has served as non-executive director of Industrial and Commercial Bank of China Limited since October 2005. She was appointed as deputy director of the Issuing Supervision Department of CSRC in 2002. She had also served as consultant of the Asian Development Bank and a member of the Strategy Planning Committee of CSRC. Ms. Zhao has taught at the Business School of Hong Kong University of Science and Technology and at the Economics and Finance School of Hong Kong University. She graduated from Tianjin University and received a Doctorate degree in economics from University of Maryland, USA.

Zhong Jian'an, Non-Executive Director

Mr. Zhong has served as non-executive director of Industrial and Commercial Bank of China Limited since October 2005. He has worked in the Central Finance and Economy Leadership Team Office since 1993, and was appointed as assistant inspector and then inspector of the secretariat. Mr. Zhong received a Master's degree in management engineering from Central South Industrial University.

Christopher A. Cole, Non-Executive Director

Christopher A. Cole has served as non-executive director of Industrial and Commercial Bank of China Limited since June 2006. He is currently chairman of the Investment Banking Division at Goldman Sachs, and serves on the Management Committee, Capital Committee and Finance Committee of Goldman Sachs. Previously, he was head of the Financial Institutions Group and co-head of the Investment Banking Division at Goldman Sachs. He graduated from Princeton University, and later from Harvard University with an MBA degree.

Leung Kam Chung, Antony, Independent Non-Executive Director

Mr. Leung has served as independent non-executive director of Industrial and Commercial Bank of China Limited since October 2005. He currently is the chairman of the Greater China operations of Blackstone Group. He was the Financial Secretary of Hong Kong from 2001 to 2003. He was also chairman of the Asia-Pacific Region of JP Morgan Chase Bank and worked for Citicorp. He had been regional chief of the treasury department, corporate banking department, investment banking department and personal banking department of Citibank in Hong Kong, Singapore, Manila and New York. Mr. Leung graduated from the University of Hong Kong and was awarded an Honorary Doctorate degree of law by Hong Kong University of Science and Technology.

John L. Thornton, Independent Non-Executive Director

Mr. Thornton has served as independent non-executive director of Industrial and Commercial Bank of China Limited since October 2005. He was president and director of Goldman Sachs. Now he is a director of Ford Motor Company, Intel, News Corporation and China Netcom Group Corporation (Hong Kong) Limited, chairman of the Board of Directors of Brookings Institution as well as a council member of other foundations or a member of other Advisory Boards, including China Securities Regulatory Commission, School of Economics and Management of Tsinghua University, Management School of Yale University and China Foreign Affairs University. He is also professor and director of Tsinghua University Global Leadership Project. He graduated from Harvard University with a Bachelor's degree in history, received Bachelor's and Master's degrees in law from Oxford University and M.P.P.M. from Yale University.

Qian Yingyi, Independent Non-Executive Director

Mr. Qian has served as independent non-executive director of Industrial and Commercial Bank of China Limited since October 2005. He is Professor of Economics at the University of California, Berkeley and the Dean of the School of Economics and Management of Tsinghua University, and he has taught at the Department of Economics at Stanford University and University of Maryland. He graduated from Tsinghua University and received a PhD in economics from Harvard University.

Xu Shanda, Independent Non-Executive Director

Mr. Xu Shanda started to serve as independent non-executive director of Industrial and Commercial Bank of China Limited in September 2007. From January 2000 to 2006, he was appointed as Deputy Director of State Administration of Taxation ("SAT"). He worked as Deputy Director-General of the Tax System Reformation Department of SAT, Deputy Director-General and Director-General of the Policy and Legislation Department of SAT, Director-General of Local Taxes Department of SAT, and Director of Supervisory Bureau of SAT. He currently is a member of the Auditing Standards Commission of the Chinese Institute of Certified Public Accountants, a member of the Accounting Standards Commission of MOF, a member of the Advisory Committee for State Informatization, Vice Chairman of China Public Finance Society, Vice Chairman of the International Tax Institute of China, a member of the Chinese Economist 50 Forum and a member of the Academic Committee. He is a part-time professor and an invited researcher of Tsinghua University, Peking University, National School of Administration, Xi'an Jiaotong University, University of Science & Technology of China, Nankai University, Central University of Finance and Economics and Zhejiang Engineering University. He received his bachelor's degree from Department of Automation, Tsinghua University, master's degree in agricultural economics & management from the Chinese Academy of Agricultural Sciences, and master's degree in finance from the University of Bath in UK.

Wang Weiqiang, Chairman of the Board of Supervisors

Mr. Wang has served as Chairman of the Board of Supervisors of Industrial and Commercial Bank of China Limited since October 2005. He was appointed as Chairman of the Board of Supervisors of State-owned Major Financial Institutions in June 2000 and seconded by the State Council as Chairman of the board of supervisors of Industrial and Commercial Bank of China in 2003, and joined ICBC in 2005. He had also taken several positions including vice president of Liaoning Branch of China Construction Bank, president of Shaanxi Branch of China Construction Bank, secretary general of Shaanxi Provincial People's Government, president of Chengdu Branch (Regional Branch) of PBOC, and was appointed by the State Council as Chairman of the board of supervisors of Agricultural Bank of China. He graduated from Liaoning University.

Wang Chixi (Female), Shareholder Supervisor

Ms. Wang has served as supervisor of Industrial and Commercial Bank of China Limited since October 2005. She was seconded by the State Council as full-time supervisor of the board of supervisors at bureau level and director of the board of supervisors' Office of Industrial and Commercial Bank of China in 2003. She joined ICBC in 2005. She had also taken several positions including vice chief of the Financial Audit Department of the National Audit Office (NAO), deputy director of the Agricultural, Forestry and Sea Products Audit Bureau and was appointed by the State Council as a full-time supervisor of the board of supervisors at the bureau level and director of the board of supervisors' office at the Agricultural Bank of China. She graduated from Shenyang Agricultural College, and is a certified public accountant.

Wang Daocheng, External Supervisor

Mr. Wang has served as external supervisor of Industrial and Commercial Bank of China Limited since October 2005. He was appointed as president of the China Institute of Internal Audit in 2005. He previously served several positions including deputy director of the Comprehensive Bureau of the NAO, director of the Foreign Funds and Foreign Affairs Audit Bureau, director-general of the Financial Audit Department of the NAO, director of the General Office of the NAO and Head of NAO's Discipline Group directly affiliated with the Central Party Discipline Committee. He graduated from Hebei College of Finance and Economics.

Miao Gengshu, External Supervisor

Mr. Miao has served as external supervisor of Industrial and Commercial Bank of China Limited since October 2005. He is a member of the National Committee of the 10th CPPCC and member of the Foreign Affairs Committee of CPPCC, president of the China Council for International Investment Promotion, chairman of the board of directors of China National Foreign Trade Transportation (Group) Corporation, external director of China Railway Communication Co., Ltd., chairman of the Chinese side of the China and Brazil Entrepreneur Committee and vice president of the China International Trade Society. He previously served in several positions including deputy director of the Shanghai Foreign Economics and Trade Commission and president of the China Minmetals Corporation. He graduated from Tianjin Foreign Trade College.

Zhang Wei, Employee Supervisor

Mr. Zhang has served as employee supervisor of Industrial and Commercial Bank of China Limited since August 2006. He joined ICBC in 1994, and has served as general manager of ICBC Legal Affairs Department since 2004. He previously served in several positions including vice general manager of ICBC Legal Affairs Department. Currently, he is also the deputy director and arbitrator of the Finance Committee of China International Economic and Trade Arbitration Commission, council member of the China Society for Finance and Banking and professor of China University of Political Science and Law. He graduated from Peking University with a Doctorate degree in Law and as a researcher.

Zhang Qu, Vice President

Mr. Zhang has served as Vice President of Industrial and Commercial Bank of China Limited since October 2005. He joined ICBC in 1985, and was appointed as Vice President of ICBC in November 2000. He previously served several positions at ICBC including president of ICBC Hangzhou Branch, president of ICBC Zhejiang Branch and president of ICBC Guangdong Branch. He graduated from Ji'nan University and received a Doctorate degree in economics.

Wang Lili (Female), Vice President

Ms. Wang has served as Vice President of Industrial and Commercial Bank of China Limited since October 2005. She was appointed as vice president upon joining Industrial and Commercial Bank of China in November 2000. She previously served several positions including vice general manager of the Credit Department One of Bank of China, and general manager of the Credit Management Department of Bank of China, assistant to president of Bank of China. She once also served as chairman of Bank of China (Canada) and Yien Yieh Commercial Bank Ltd. (Hong Kong), respectively. Currently she also works as executive director of the International Chamber of Commerce, China's representative of ABAC, member of APEC World Women Leaders' Organization, board member of the International Swaps and Derivatives Association, deputy chief of the China Chamber of International Commerce, vice chairman of the board of directors of ICBC (Asia), chairman of the board of directors of ICBC (London) and deputy chief of the China Society of International Finance. She graduated from Nankai University and received an MBA degree from University of Birmingham, UK.

Li Xiaopeng, Vice President

Mr. Li has served as Vice President of Industrial and Commercial Bank of China Limited since October 2005. He joined ICBC in 1984, and was appointed as vice president of ICBC in September 2004. Mr. Li previously served several positions including vice president of ICBC Henan Branch, general manager of the Banking Department of ICBC Head Office, president of ICBC Sichuan Branch, vice president of the China Huarong Asset Management Corporation, and assistant to president of ICBC and president of ICBC Beijing Branch. From 2007 onwards he became chairman of ICBC (Almaty) and ICBC Leasing. He graduated from Zhengzhou University and received a Doctorate degree in economics from Wuhan University.

Liu Lixian, Secretary of Party Discipline Committee

Mr. Liu has served as Secretary of Party Discipline Committee of Industrial and Commercial Bank of China Limited since October 2005. He was Vice President of the China Huarong Asset Management Corporation in September 2003. He joined ICBC in 2005. He previously served in several positions including deputy director of the Bribery and Corruption Inspection Department of the Supreme People's Procuratorate, deputy director of its General Bureau of the Anti-bribery and Corruption, director of its Inspection Technology Bureau, and Director of its Inspection Theory Research Institute. He graduated from Jilin University.

Yi Huiman, Member of Senior Management & President of Beijing Branch

Mr. Yi has served as a member of the senior management of Industrial and Commercial Bank of China Limited and is concurrently president of ICBC Beijing Branch since October 2005. He joined ICBC in 1985, and was appointed as president of ICBC Jiangsu Branch in October 2000. He previously served in several positions at ICBC including vice president of ICBC Zhejiang Branch and vice president of ICBC Jiangsu Branch. He graduated from Hangzhou College of Electronics and Hangzhou Financial Management Cadre School.

Wei Guoxiong, Chief Risk Officer

Mr. Wei has served as Chief Risk Officer of Industrial and Commercial Bank of China Limited since August 2006. He joined ICBC in 1987, and has served as general manager of ICBC's credit management department since 2001. He previously served in several positions at ICBC including acting president of ICBC Zhejiang Wenzhou Branch, vice president of ICBC Zhejiang Branch and general manager of Industrial and Commercial Credit Department of the Head Office. He graduated from Tianjin University of Finance and Economics, and received a Master's degree in economics.

Pan Gongsheng, Secretary of the Board of Directors

Mr. Pan has served as Secretary of the Board of Directors of Industrial and Commercial Bank of China Limited since October 2005. He joined ICBC in 1993, and was appointed as general manager of the Financial Planning Department from June 2004 to November 2005, and he took up the position of director of ICBC Restructuring Office from December 2004 to March 2007 and director of ICBC Board of Directors' Office from October 2005 to March 2007. In March 2007 he became general manager of the Corporate Strategy and Investor Relations Department of ICBC. He previously served in several positions at ICBC including vice general manager of the Human Resources Department of ICBC, vice president of ICBC Shenzhen Branch, vice general manager of the Financial Planning Department of the Head Office. He graduated from Renmin University of China where he received a Doctorate degree in economics. He has conducted postdoctoral research at University of Cambridge, UK.

Mr. Fu Zhongjun, Mr. Kang Xuejun and Mr. Song Zhigang were nominated by the MOF to be the non-executive directors of the Bank. Mr. Wang Wenyan, Ms. Zhao Haiying and Mr. Zhong Jian'an were nominated by Huijin to be non-executive directors of the Bank. Mr. Christopher A. Cole was nominated by Goldman Sachs to be a non-executive director of the Bank. The MOF, Huijin and Goldman Sachs have equity interests in the Bank. Please refer to the "Report of Board of Directors: Interests in Shares, Underlying Shares, and Debentures Held by Substantial Shareholders and Other Persons" for such interests.

Appointment and Removal of Directors, Supervisors and Senior Management

During the reporting period, after being reviewed and approved by the Shareholders' General Meeting in 2006 held on 12 June 2007, Mr. Xu Shanda was selected as the independent non-executive director of the first session of the Board of Directors of the Bank, whose qualification was approved by CBRC on 20 September 2007. On 27 December 2007, the 30th meeting of the first session of the Board of Directors was held, which reviewed and approved that Xu Shanda, the independent non-executive director, was selected to be a member of the Strategy Committee, the Audit Committee and the Nomination and Compensation Committee of the Board of Directors of the Bank and replaced Leung Kam Chung, Antony, the independent non-executive director to serve as the chairman of the Audit Committee of the Board.

No incumbent director, supervisor or senior management member resigned during the reporting period.

Remuneration for the Year

For detailed remuneration for directors, supervisors and senior management members, please refer to the section headed "Brief Particulars of Directors, Supervisors and Senior Management".

Basic Information on Employees and Institutions

At the end of 2007, the Bank had employees of 381,713 persons[1], of whom 145 persons are employees in main domestic shareholding companies and 2,167 are local employees in overseas institutions. Among the employees in domestic institutions, 38,112 are corporate banking personnel, 143,575 are personal banking personnel[2], 3,573 are treasury operations personnel, 90,602 are financial and accounting personnel[2], and 103,684 staff in other specializations; in terms of academic achievements, 5,838 employees have received achievements of master's degree or above, accounting for 1.5% of all employees; 128,892 employees have received bachelor's degree, accounting for 34.0% of all employees; 156,716 employees have received associate degree, accounting for 41.3% of all employees; and 88,100 employees have qualifications below associate degree, accounting for 23.2% of all employees.

The Bank had 16,476 domestic institutions and 112 overseas institutions with a total of 16,588.

	31 December 2007	
	Institution (quantity)	Percentage of the Total (%)
Head Office	1	—
Institutions and Branches Directly Controlled by the Head Office	19	0.1
Yangtze River Delta	2,636	15.9
Pearl River Delta	1,796	10.8
Bohai Rim	2,766	16.7
Central China	3,543	21.4
Northeastern China	1,809	10.9
Western China	3,904	23.5
Main Domestic Shareholding Companies	2	—
Total Number of Domestic Institutions	**16,476**	**99.3**
Total Number of Overseas Institutions	**112**	**0.7**
Total Number of Institutions	**16,588**	**100.0**

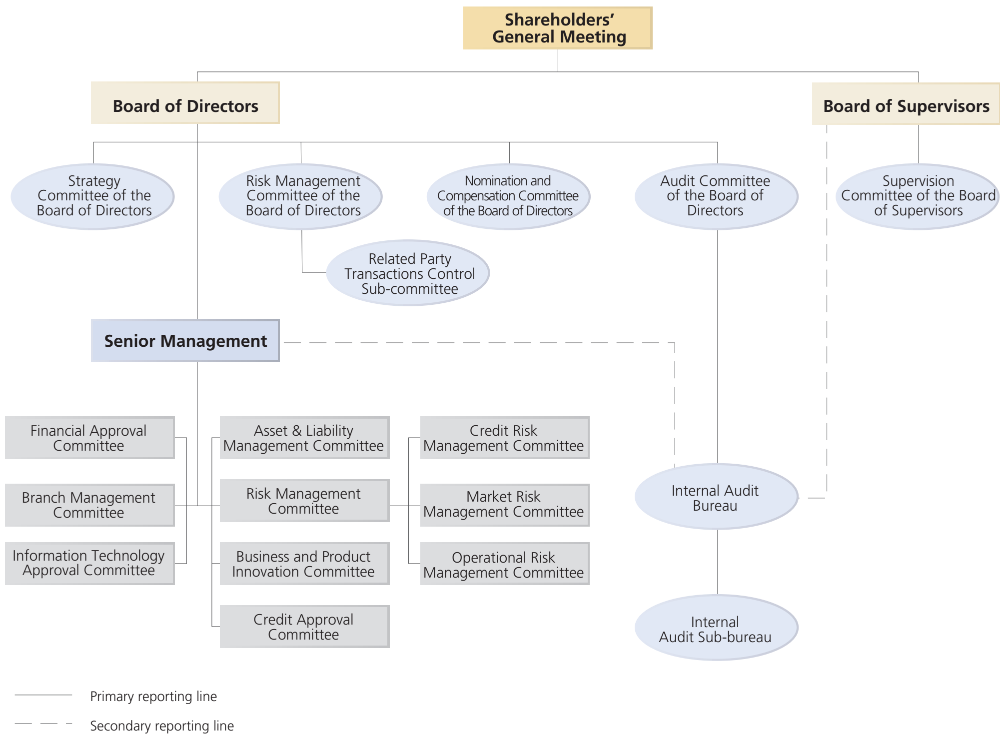
Note: Refer to "Note 47 to the Financial Statements: Segment Information" for the geographical segments as set out in the table.

1 Does not include labor dispatched for services totalling 34,892.

2 Inclusive of bank tellers in branches and sub-branches

Corporate Governance Report

Corporate Governance Framework



Since the stock reform and listing, the Bank has considered improving corporate governance as a key project, with the aim of strengthening competitiveness and improving its corporate governance. During the reporting period, the Bank strictly followed the laws and regulations of its places of operations and the relevant rules and regulations of its places of listing. The Bank also strengthened the development of the corporate governance system, improved the operating platform of "Shareholders' General Meeting, Board of Directors, Board of Supervisors and Senior Management", strengthened risk management and internal controls, continuously improved the board structure, enhanced the independence of the Board of Directors and corporate transparency, enhanced the quality of information disclosure and the management of investor relations, and accelerated the transformation of the Bank's mode of operations and growth, with the aim of maximizing sustainable corporate values and shareholders' interests. The Bank has achieved remarkable results with the sound and rapid development of all business areas.

- The Bank revised the rules of procedures for the Shareholders' General Meeting, the Board of Directors and the Board of Supervisors, formulated new working guidelines for the President as well as the administrative measures for holding and transferring shares of the Bank by directors, supervisors and members of the senior management.
- The Bank appointed independent non-executive directors and brought the special committees of the Board of Directors into active play. The chairman position of the Audit Committee of the Board of Directors was modified and the composition of the Strategy Committee, the Audit Committee and the Nomination and Compensation Committee was enriched.
- The Bank improved its comprehensive risk management system, strengthened the construction of its risk reporting system and continuously enhanced the standard of risk reporting. It also accelerated the construction of the Internal Ratings-based Approach Project, promoted the construction of an integrated and quantitative comprehensive risk management system as well as enhanced the capabilities for identifying, measuring, valuing and evaluating different types of risks.
- The Bank strengthened its internal audit and monitored the adequacy and effectiveness of bank-wide internal controls and risk management of its principal businesses. It also carried out internal control evaluation and special audits covering all domestic branches and relevant overseas operations, thereby achieving an effective coverage of bank-wide businesses, operations and risk controls.

- The Bank facilitated the construction of bank-wide internal control systems, reinforced its operational risk management and compliance management and conducted compliance checks and routine audits. The Bank further improved its internal control systems and enhanced the standard of internal controls through comprehensive examination of crucial aspects of its operations and management.
- The Bank carried out a human resources management enhancement program and intensified the labor deployment system, institutional management system and remuneration & welfare system. It also accelerated the construction of a new human resources management system with a view to achieving corporate strategic goals and maximizing shareholders' interest.
- The Bank revised its information disclosure regulations and further standardized information disclosure mechanisms. It also promulgated administrative measures for internal reporting of material information to ensure timely and effective information disclosure.
- The Bank took part in the selection of "Corporate Governance Excellence Awards" co-founded by the Chamber of Commerce of Hong Kong Listed Companies (CHKLC) and Hong Kong Baptist University, and was awarded 2007 "Hong Kong Corporate Governance Excellence Awards".

From April to December 2007, the Bank launched a special program on corporate governance enhancement which extensively examined and evaluated the Bank's corporate governance standards. After a spot inspection, the regulatory authority positively affirmed the Bank's corporate governance work and requested the Bank to summarize its experience from the operation of special committees of the Board of Directors and the work of the Board of Supervisors in order to introduce the same to others in the "Circular concerning the Special Program of Corporate Governance Enhancement of Listed Companies in Beijing". The regulatory authority also made suggestions regarding the direction the Bank should strive towards in its "Evaluation Opinion on the Improvement in the Corporate Governance of Industrial and Commercial Bank of China Limited", which mainly include continuing to improve relevant systems of the special committees of the Board of Directors and bringing the roles of independent directors into better play; the Board of Directors putting into place a unified management system to manage the disclosures made by multiple spokesmen and to ensure that the information disclosed complies with applicable laws and regulations.

With the aim of improving the effectiveness of its corporate governance, the Bank is now taking the opportunity of the above-mentioned special program to continuously improve corporate governance related systems and mechanisms, to bring the roles of independent directors into full play, improve the membership structure of the Board of Directors and the Board of Supervisors and to proactively enhance the spokesmen system in order to ensure compliance with the relevant regulatory requirements regarding information disclosure. The Bank will continuously improve its corporate governance, enhance its corporate governance standards and ensure steady, sustainable and rapid development by emulating the best practices of internationally leading companies in light of the actual circumstances of ICBC.

Compliance with the Code of Corporate Governance Practices

During the reporting period, the Bank fully complied with the principles and code provisions stipulated in the Code of Corporate Governance Practices (the "Code") (Appendix 14 to the Hong Kong Listing Rules), and essentially complied with the recommended best practices.

Board of Directors and Special Committees

Composition of the Board of Directors

The Board of Directors consists of 15 directors, including four executive directors, namely Mr. Jiang Jianqing, Mr. Yang Kaisheng, Mr. Zhang Furong and Mr. Niu Ximing, seven non-executive directors, namely Mr. Fu Zhongjun, Mr. Kang Xuejun, Mr. Song Zhigang, Mr. Wang Wenyan, Ms. Zhao Haiying, Mr. Zhong Jian'an, and Mr. Christopher A. Cole, and four independent non-executive directors, namely Mr. Leung Kam Chung, Antony, Mr. John L. Thornton, Mr. Qian Yingyi and Mr. Xu Shanda.

Responsibilities and Operation of the Board of Directors

The powers of the Board of Directors include, among others:

- Convening and reporting to the Shareholders' General Meeting;
- Implementing resolutions of the Shareholders' General Meeting;
- Deciding on business plans, investment plans and development strategies of the Bank;
- Formulating annual budgets and final accounts of the Bank;
- Formulating plans on profit distribution and recovery of loss;
- Formulating plans for increasing or decreasing the registered capital of the Bank;
- Formulating fundamental management rules for risk management, internal controls, connected transactions, and supervising the implementation of these rules;
- Appointing or removing, based on the President's nomination, Vice Presidents and other senior management members (except the secretary to the Board of Directors) who shall be appointed or removed by the Board of Directors according to relevant laws, and decide on their remuneration, rewards and sanctions;
- Deciding or authorizing the President to set up tier-1 departments and sections of the Head Office, domestic tier-1 branches, branches or subsidiaries directly controlled by the Head Office, and overseas subsidiaries; and
- Other powers delegated by the Shareholders' General Meeting or set out in the Articles of Association of the Bank.

Meetings of the Board of Directors

The table below sets out the attendance record of directors in meetings of the Board of Directors and special committees.

Directors	Actual attendance/Number of meetings requiring attendance					
		Under the Board of Directors:				
	Board of Directors	Strategy Committee	Audit Committee	Risk Management Committee	Related Party Transactions Control Sub-committee	Nomination and Compensation Committee
Executive directors						
Jiang Jianqing	15/15	2/2				
Yang Kaisheng	15/15	2/2				4/4
Zhang Furong	15/15	2/2		3/3		
Niu Ximing	15/15	2/2		3/3		
Non-executive directors						
Fu Zhongjun	15/15	2/2				4/4
Kang Xuejun	15/15	2/2	7/7	3/3		
Song Zhigang	15/15	2/2		3/3		
Wang Wenyan	15/15	2/2				4/4
Zhao Haiying	15/15	2/2	7/7			
Zhong Jian'an	15/15	2/2		3/3		
Christopher A. Cole	14/15	2/2		3/3		
Independent non-executive directors						
Leung Kam Chung, Antony	15/15	2/2	7/7	3/3	2/2	4/4
John L. Thornton	15/15	2/2	7/7	3/3	2/2	4/4
Qian Yingyi	15/15	2/2	7/7	3/3	2/2	4/4
Xu Shanda*	4/4	—	—			—

Note: * Mr. Xu Shanda was elected a director of the Bank at the Annual General Meeting of Shareholders for 2006 held on 12 June 2007, and his qualification was approved by CBRC on 20 September 2007. Mr. Xu was elected as the Chairman of the Audit Committee, a member of the Strategy Committee and a member of the Nomination and Compensation Committee at the 30th meeting of the Board of Directors held on 27 December 2007. From then till 31 December 2007, the above special committees did not hold any meetings.

During the reporting period, the Board of Directors of the Bank held 15 meetings (the 16th to the 30th Directors' meetings), on 25 January, 9 February, 22 March, 3 April, 11 April, 25 April, 29 May, 11 July, 8 August, 23 August, 29 August, 27 September, 25 October, 12 December and 27 December. These included 11 onsite meetings and 4 meetings held in the form of circulation of written proposals. The Board of Directors reviewed and adopted 54 proposals, including revisions to the rules of procedures for the Board of Directors, the information disclosure regulations, and the acquisition of a 20% stake in Standard Bank of South Africa, and the acquisition of Seng Heng Bank of Macau, and the establishment of financial leasing company and the working guidelines of the president.

Implementation of Resolutions of the Shareholders' General Meeting by the Board of Directors

The Board of Directors of the Bank implemented the "Proposal on the 2006 Final Accounts", "Proposal on the Post-listing Profit Distribution Plan" and "Proposal on the 2007 Fixed Assets Investment Budget" reviewed and approved at the Annual General Meeting of Shareholders for 2006.

In accordance with the "Proposal on Appointment of Accounting Firm for 2007" reviewed and approved at the Annual General Meeting of Shareholders for 2006, the Board of Directors of the Bank has reappointed Ernst & Young Hua Ming and Ernst & Young as auditors of the Bank.

In accordance with the "Proposal on Considering and Appointing Mr. Xu Shanda and Mr. Chen Xiaoyue as Independent Non-executive Directors reviewed and approved at the Annual General Meeting of Shareholders for 2006", and after approval from CBRC, Mr. Xu Shanda was elected as an independent non-executive director and has been fulfilling his duties in accordance with relevant laws.

Pursuant to the "Proposal on the Plan of Purchasing Directors', Supervisors' and Officers' Liability Insurance" reviewed and approved at the First Extraordinary General Meeting in 2007 of the Bank, the directors', supervisors' and officers' liability insurance purchased by the Bank became effective on 26 March 2007.

According to the "Proposal on Revising the Rules of Procedures for the Shareholders' General Meeting of Industrial and Commercial Bank of China Limited", the "Proposal on Revising the Rules of Procedures for the Board of Directors of Industrial and Commercial Bank of China Limited" and the "Proposal on Revising the Rules of Procedures for the Board of Supervisors of Industrial and Commercial Bank of China Limited" reviewed and approved at the First Extraordinary General Meeting in 2007, the said rules of procedures have come into force.

In line with the "Proposal on 2006 Remuneration Clearing Plan for Internal Supervisors" and the "Proposal on the Allowance Standards for Independent Directors and External Supervisors" reviewed and approved at the First Extraordinary General Meeting in 2007, the Bank paid relevant remuneration and allowance.

Based on the "Proposal on the Acquisition of Seng Heng Bank Limited" and the "Proposal on the Acquisition of a 20% stake in Standard Bank" reviewed and approved at the Second and Third Extraordinary General Meetings in 2007, the completion of the acquisition of shares and the payment of the consideration by the Bank took place on 28 January 2008 and 3 March 2008, respectively.

Implementation of Matters Authorized by the Shareholders' General Meeting

Since the "Plan on the Authorization of the Shareholders' General Meeting to the Board of Directors" became effective upon the approval of the Shareholders' General Meeting, the Board of Directors has strictly complied with the Articles of Association of the Bank and the Authorization Plan, earnestly carried out its duties, made decisions in a scientific and prudent manner, and exercised powers within the defined scope of authority. During the reporting period, two equity investments exceeded the authority granted by the Shareholders' General Meeting to the Board of Directors, namely the acquisitions of 79.9333% of Seng Heng Bank's shares and 20% of Standard Bank's shares. Such equity investments have been presented to the Second and Third Extraordinary General Meetings in 2007 for approval. During the reporting period, no matter was beyond the approval authority of the Board of Directors.

Powers and Functions of the Senior Management

The powers of the Board of Directors and those of the Senior Management are strictly separated pursuant to the Articles of Association and other constitutional documents of the Bank.

According to the Articles of Association of the Bank, the President is entitled to exercise the following powers: take charge of the Bank's business management, organize the implementation of Board resolutions; submit the Bank's business and investment plans to the Board of Directors and implement such plans upon approval by the Board of Directors; prepare fundamental management rules for the Bank; and draft plans relating to the annual budget, final accounts, profit distribution, recovery of loss, increase or decrease of registered capital, bond issuance or listing, and make recommendations to the Board of Directors.

During the reporting period, the Bank made an inspection of the implementation of authorization granted to the President by the Board of Directors, and no approval beyond such authority was found.

Responsibilities of Directors in respect of Financial Statements

The Directors of the Bank acknowledged that they are responsible for the preparation of financial statements of the Bank. The Bank has published annual results within four months after the end of the reporting period.

Independence of and Performance of Duties by Independent Non-executive Directors

To ensure the independence of the Bank's independent non-executive directors, the Bank's independent non-executive directors have no business or financial interests in the Bank or its subsidiaries and have not assumed any managerial post in the Bank. The Bank has received the annual confirmation of independence from all independent non-executive directors and considered that they were independent.

During the reporting period, the Bank's independent non-executive directors earnestly attended the meetings of the Board of Directors and special committees (with a turnout rate of 100%), and strengthened communications with the Management by means of onsite investigations and informal discussions. The independent directors of the Bank actively provided their opinions, and made valuable suggestions on business development and significant decisions made by the Bank. They also issued independent opinions concerning the connected transactions and external guarantees of the Bank during the reporting period, which reflected their honesty and diligence, and promoted the scientific decision-making of the Board of Directors.

Special Committees of the Board of Directors

The Board of Directors of the Bank consists of five special committees, i.e. the Strategy Committee, the Audit Committee, the Risk Management Committee, the Related Party Transactions Control Sub-committee (established under the Risk Management Committee) and the Nomination and Compensation Committee. During the reporting period, Mr. Xu Shanda was appointed as a member of the Strategy Committee, a member of the Audit Committee, a member of the Nomination and Compensation Committee and Chairman of the Audit Committee in accordance with the "Proposal on Appointing Mr. Xu Shanda as Member of the Strategy Committee, the Audit Committee and the Nomination and Compensation Committee" and the "Proposal on Adjusting the Position of Chairman of the Audit Committee" reviewed and adopted at the 30th meeting of the Board of Directors held on 27 December 2007. After the changes, the structure of relevant special committees was further improved, which is conducive for special committees to support the Board of Directors.

The performance of duties by each special committee of the Board of Directors are as follows:

Strategy Committee

The Strategy Committee consists of 15 directors, including Mr. Jiang Jianqing (Chairman of the Bank), Mr. Yang Kaisheng (Vice Chairman of the Bank), Mr. Zhang Furong, Mr. Niu Ximing, Mr. Fu Zhongjun, Mr. Kang Xuejun, Mr. Song Zhigang, Mr. Wang Wenyan, Ms. Zhao Haiying, Mr. Zhong Jian'an, Mr. Christopher A. Cole, Mr. Leung Kam Chung, Antony, Mr. John L. Thornton, Mr. Qian Yingyi and Mr. Xu Shanda. Mr. Jiang Jianqing assumes Chairman of the Strategy Committee. The Committee is mainly responsible for studying and reviewing the Bank's strategic development plan, business and institutional development plan, major investment and financing plan and other major matters critical to its development, and making recommendations to the Board of Directors.

During the reporting period, the Strategy Committee placed great importance on the formulation of a comprehensive operation plan and an international development strategy, made plans on the expansion and layout of an overseas network, gave guidance for overseas mergers and acquisitions, supervised the progress of business processes and institutional reform, paid attention to the development and risk control of the financial market business, and promoted the implementation of various strategic plans. During the reporting period, the Strategy Committee held two meetings, and considered seven reports including the "Report on Basic Consideration about Recent Development of Overseas Institutions" and the "Report on Material Mergers and Acquisitions", providing support to the scientific decision-making process of the Board of Directors.

Audit Committee

The Audit Committee consists of six directors, including Mr. Xu Shanda, Mr. Leung Kam Chung, Antony, Mr. John L. Thornton, Mr. Qian Yingyi, Mr. Kang Xuejun and Ms. Zhao Haiying. Independent non-executive director Mr. Xu Shanda succeeded Leung Kam Chung, Antony as the Chairman of the Audit Committee. The committee is mainly responsible for supervising, inspecting and evaluating internal controls, financial information and internal audit of the Bank.

During the reporting period, the Audit Committee held seven meetings, reviewed nine proposals such as the 2006 internal audit report, 2007 internal audit plan and engagement of annual accounting firm, and considered five reports such as internal control of the Bank and interim report on internal audit. The Audit Committee reviewed financial reports of the Bank on a regular basis, and reviewed and approved the annual report, interim reports and quarterly reports of the Bank; focused on the supervision of external auditors and considered several reports of external auditors concerning annual audit results, management proposals and audit plans; and proposed to the Board of Directors to reappoint Ernst & Young Hua Ming and Ernst & Young as auditors of the Bank for 2007.

SUMMARY REPORT ON THE PERFORMANCE OF DUTIES BY THE AUDIT COMMITTEE:

In the preparation and audit of the 2007 financial report, the Audit Committee determined related matters such as audit schedules with external auditors, conducted supervision at appropriate times, and reviewed the unaudited and preliminarily audited annual financial statements. The Audit Committee convened a meeting on 20 March 2008, and held that the annual financial statements accurately and comprehensively reflected the financial status of the Bank. The Audit Committee has reviewed and discussed the summary of the audit work performed by external auditors for the Bank during the year, and agreed to reappoint Ernst & Young Hua Ming and Ernst & Young as the domestic and international auditors of the Bank in 2008, respectively, and to report the above matters to the Board of Directors for review.

Risk Management Committee

The Risk Management Committee consists of nine directors, including Mr. Leung Kam Chung, Antony, Mr. Zhang Furong, Mr. Niu Ximing, Mr. Kang Xuejun, Mr. Song Zhigang, Mr. Zhong Jian'an, Mr. Christopher A. Cole, Mr. John L. Thornton and Mr. Qian Yingyi. Mr. Leung Kam Chung, Antony, an independent non-executive director of the Bank, is the Chairman of the Committee. The Committee is primarily responsible for approving the strategy and policy of the Bank on risk management, the procedures and internal control processes, and supervising and evaluating the performance of senior management members and the relevant risk management department in respect of risk management.

During the reporting period, the Risk Management Committee held three meetings, discussed and adopted the risk reporting regulations of the Bank, considered annual and interim risk management reports on a regular basis, and facilitated the improvement of risk management regulations. By establishing objectives of risk management and reviewing significant risk management matters, the Committee supervised and guided the operation of the risk management system, studied risk management responses in light of the latest development of the market, thereby promoting the enhancement of a balanced and efficient risk management system.

Related Party Transactions Control Sub-committee

The Related Party Transactions Control Sub-committee consists of three directors, including Mr. Leung Kam Chung, Antony, Mr. John L. Thornton and Mr. Qian Yingyi. Mr. Leung Kam Chung, Antony, an independent non-executive director of the Bank, is the Chairman of the Sub-committee. The Sub-committee is primarily responsible for identifying the Bank's related parties, and reviewing and recording connected transactions.

During the reporting period, the Related Party Transactions Control Sub-committee held two meetings, and reviewed and adopted the "Basic Regulations on Related Party Transactions Management (Tentative)" and the Proposal on Identification of Related Parties.

Nomination and Compensation Committee

The Nomination and Compensation Committee consists of seven directors, including Mr. Yang Kaisheng (Vice Chairman), Mr. Qian Yingyi, Mr. Leung Kam Chung, Antony, Mr. John L. Thornton, Mr. Xu Shanda, Mr. Wang Wenyan and Mr. Fu Zhongjun. Mr. Qian Yingyi, an independent non-executive director of the Bank, is the Chairman of the Committee. The Committee is mainly responsible for reviewing and supervising the implementation of the Bank's remuneration and performance evaluation systems, making recommendations to the Board of Directors on selection procedures, qualifications, remuneration systems and incentive plans for directors, supervisors and senior management members of the Bank, and evaluating the performance and conduct of directors and senior management members.

The Nomination and Compensation Committee nominates candidates for directorship based on whether the candidate complies with the relevant laws, administrative rules, regulations and the Articles of Association of the Bank, is diligent, has a thorough understanding of the business operations management of the Bank, and accepts the supervision of the Board of Supervisors on his/her performance of duties. Apart from the requirements above, candidates for the position of the Bank's independent non-executive directors shall have outstanding professional capabilities and good reputation, independently perform responsibilities, have basic knowledge of operations of a listed company, be familiar with the operations management of commercial banks, and have not less than eight years of relevant work experience. The nomination of candidate directorship made by the Nomination and Compensation Committee shall be approved by the Board of Directors and presented to the Shareholders' General Meeting for review. The meeting of the Nomination and Compensation Committee is held only when over two-thirds of all members are present, and a resolution is adopted when over two-thirds of all members vote for it.

SUMMARY REPORT ON THE PERFORMANCE OF DUTIES BY THE NOMINATION AND COMPENSATION COMMITTEE:

During the reporting period, the Nomination and Compensation Committee held four meetings, and reviewed and adopted 10 proposals, including the Plan on Remuneration and Performance Evaluation of Senior Management Members and the Allowance Standards for Independent Non-executive Directors and External Supervisors. The Nomination and Compensation Committee reviewed the remuneration of directors, supervisors and senior management members of the Bank for 2007, and held that the remuneration as disclosed in the 2007 Annual Report is in accordance with remuneration system of the Bank and paid in accordance with relevant regulations. During the reporting period, the Bank has not implemented any stock incentive programs.

Board of Supervisors and Special Committee

Composition of the Board of Supervisors

The Board of Supervisors consists of five members, including two shareholder supervisors, i.e. Mr. Wang Weiqiang and Ms. Wang Chixi, two external supervisors, i.e. Mr. Wang Daocheng and Mr. Miao Gengshu, and one employee supervisor, Mr. Zhang Wei.

Responsibilities and Operation of the Board of Supervisors

The powers of the Board of Supervisors include the following:

- Supervising the performance of duties and due diligence of directors and senior management members, and making inquiries with directors and senior management members;

- Supervising the performance of duties by the Board of Directors and the Senior Management;
- Requesting directors and senior management members to rectify any actions damaging the Bank's interests;
- Proposing removal of or initiation of legal proceedings against directors or senior management members who have violated laws, administrative regulations and rules, the Articles of Association of the Bank or resolutions of the Shareholders' General Meeting;
- Conducting audits on outgoing directors and senior management members when necessary;
- Examining and supervising the Bank's financial matters;
- Examining financial information such as financial reports, business reports and profit distribution plans to be submitted to the Shareholders' General Meeting by the Board of Directors, and engaging certified public accountants and practicing auditors in the Bank's name to re-examine such information should any ambiguity arise;
- Examining and supervising business decisions, risk management and internal controls when necessary, and providing guidance to internal audit departments;
- Formulating measures for assessment of supervisors, assessing the performance and conduct of supervisors, and reporting to the Shareholders' General Meeting;
- Making proposals to the Shareholders' General Meeting;
- Making proposals in relation to the convening of extraordinary general meetings, and convening and presiding over such meetings in case the Board of Directors fails to perform its duty of convening the shareholders' general meeting;
- Making proposals in relation to the convening of interim meetings of the Board of Directors; and
- Other functions and powers as may be stipulated by relevant laws, administrative regulations, rules or the Articles of Association of the Bank or authorized by the Shareholders' General Meeting.

The Board of Supervisors discusses official business at the meeting of the Board of Supervisors which includes regular meetings and special meetings. The regular meetings should be held at least four times a year and such meetings shall, in principle, be held before the disclosure of periodical reports.

As the day-to-day administrative body for the Board of Supervisors, the Board of Supervisors' Office is responsible for organizing detailed supervisory work and the meetings of the Board of Supervisors and its special committee.

Supervision Committee

The Supervision Committee is the special committee of the Board of Supervisors, which operates in accordance with the authorization from the Board of Supervisors and reports to the Board of Supervisors. It consists of at least three supervisors.

The Supervision Committee has one Head Member assumed by an external supervisor. The Head Member is nominated by the Chairman of the Board of Supervisors, and is appointed or removed by the Board of Supervisors. The Supervision Committee consists of three supervisors, including Mr. Wang Daocheng, Ms. Wang Chixi and Mr. Miao Gengshu. Mr. Wang Daocheng is currently the Head Member of the Supervision Committee. The daily operations of the Supervision Committee is conducted by the Board of Supervisors' Office.

The responsibilities of the Supervision Committee include:

- Formulating plans for the inspection and supervision of the financial activities of the Bank;
- Formulating plans for the audits on serving and outgoing directors, President and other senior management members;
- Formulating plans for the audits on the business policies, risk management and internal control of the Bank when necessary; and
- Other functions and duties as may be authorized by the Board of Supervisors.

For more information of the Board of Supervisors and the Supervision Committee, please refer to the "Report of the Board of Supervisors — Meetings of the Board of Supervisors and its Special Committee".

Internal Control

The Board of Directors is responsible for formulating the basic regulations for internal control and supervising the implementation of such regulations; the Board of Directors discharges its responsibilities in relation to internal control management and the review of the effectiveness of internal control systems through the Audit Committee and the Risk Management Committee. The Internal Audit Bureau and the Internal Audit Sub-bureau set up by the Bank, which adopted a hierarchical management system, are responsible to and report to the Board of Directors. The Internal Control and Compliance Department is established at the Head Office and at branches at various levels, and is responsible for the bank-wide organization, promotion and coordination of internal controls, the management of operational risk, the management of compliance and the regular audits.

During the reporting period, the Bank, following the principles of segregation of duties and mutual checks and balances, strengthened vertically the internal management, examination and supervision functions of business lines on the basis of horizontal integration of operating and management departments. In doing so, it further defined the boundaries of responsibility for the internal audit, internal controls and compliance and legal affairs departments, formed three avenues of internal control through business management, compliance examinations and internal audits, and gradually improved the internal control system characterized by full coverage supervision of all areas and procedures. To ensure that assets are secured and complete and that financial data is accurate and reliable, and to increase the capability of preventing and minimizing various risks, the Bank has prepared and implemented a set of internal control regulations and procedures in accordance with related laws and regulations and the Articles of Association of the Bank, which leads to the preliminary internal control mechanisms that penetrate into all business processes and operational links and covers all institutions, departments and positions.

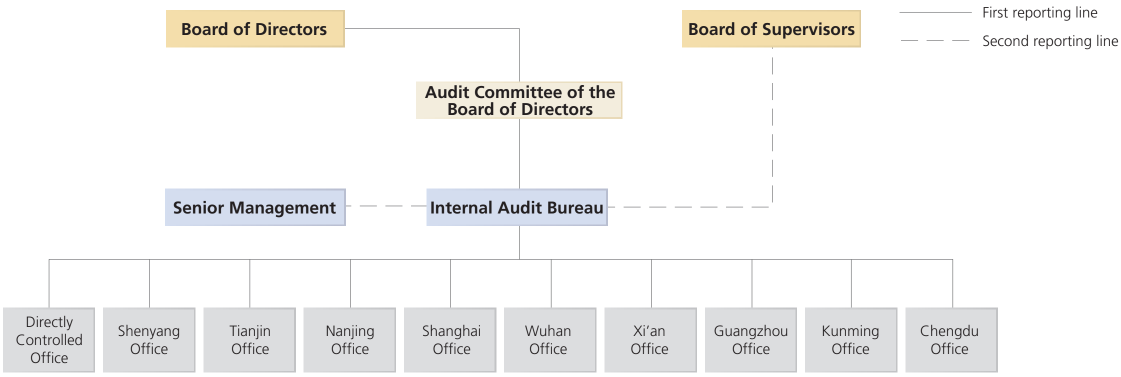
During the reporting period, the three-year plan for the formulation of the internal control systems was put into effect. The Bank continuously optimized business procedures, promoted and comprehensively adopted the operating guidelines for businesses, improved the standardized system of business operations and effectively controlled operational risks. The Bank expanded and carried out the centralized financial reform of tier-one branches throughout the Bank, revised and perfected the indicator system and evaluation approach of internal controls, updated the information systems of internal control evaluation and organized tier-one (directly-controlled) branches and basic-level sub-branches to conduct internal control evaluations to reflect the current status of internal control management in the Bank at various levels in a more complete and accurate manner; launching special audit activities concerning finance, credit, new products and IT, organizing and conducting thorough examinations of significant operating and management matters all over the Bank including investigations into anti-money laundering, operational risk and significant operating and management matters to improve the bank-wide internal control systems. Through its efforts, the Bank has further improved its internal control system with coverage of all areas and control of all procedures regarding operating and management activities and has gradually strengthened the integrity, reasonableness and effectiveness of internal control.

The Board of Directors has reviewed the effectiveness of the internal control systems of the Bank and its subsidiaries. During the reporting period, the Bank conducted a self-assessment of internal controls, and prepared an annual self-assessment report of internal controls on this basis.

Internal Audit

In 2007, the Bank strengthened the building of a vertical and independent internal audit system, and put into place a series of support measures related to management mode, resource allocation, procedure standards, technical approach and team building, with a view to enhancing the performance of its duties, ensuring the smooth implementation of the audit plan, and improving the quality and value of audit.

The following chart shows the structure of internal audit management and reporting:



During the reporting period, the internal audit of the Bank focused on the adequacy and effectiveness of internal controls, risk management and corporate governance, completed evaluation of 2006 annual audit and effectiveness of 2007 internal control mechanisms; and conducted audits and supervisions relating to financial management, credit business, new products and IT systems, and achieved basic internal audit coverage for businesses, organizations and risk control of the Bank and fulfilled the purpose of the audit at different levels.

Chairman and President

Pursuant to code provision A.2.1 of the Code (Appendix 14 to the Hong Kong Listing Rules) and the Articles of Association of the Bank, the positions of Chairman and President are two separate positions, and the position of Chairman shall not be assumed by the legal representative or the person-in-charge of the controlling shareholder.

Mr. Jiang Jianqing is the Chairman and legal representative of the Bank, responsible for leading the Board of Directors in considering and formulating business development strategies, risk management and internal control of the Bank.

Mr. Yang Kaisheng is the President of the Bank, responsible for daily management of the business operations of the Bank. The President is appointed by and reports to the Board of Directors, and performs his responsibilities as stipulated in the Articles of Association of the Bank and as authorized by the Board of Directors.

Securities Transactions of Directors and Supervisors

The Bank has adopted a code concerning securities transactions of directors and supervisors no less stringent than the standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Hong Kong Listing Rules. Through reasonable enquiries, the Bank is satisfied that for the year ended 31 December 2007, all directors and supervisors have complied with the provisions of the aforesaid code.

Term of Directors

The Bank has complied with the provisions of the Hong Kong Listing Rules and the Articles of Association of the Bank in that directors are elected by the Shareholders' General Meeting with a term of three years. The term commences from the date of approval by CBRC. Directors may be reappointed at the shareholders' general meeting through re-election after expiry of their term.

Remuneration for Auditors

The Annual General Meeting held on 12 June 2007 adopted the "Proposal on the Appointment of Auditors", and approved the reappointment of Ernst & Young Hua Ming as the domestic auditors of the Bank for 2007, and the reappointment of Ernst & Young as its international auditors for 2007. The Shareholders' General Meeting also approved the auditors' remuneration.

During the reporting period, the Group paid Ernst & Young and its member institutions a total fee of RMB171 million for the audit of financial statements (including the audit of financial statements of its subsidiaries and its overseas branches), including the audit fee of RMB163.6 million paid by the Bank.

During the reporting period, Ernst & Young and its member institutions provided the Group with such non-audit services as due diligence investigation on acquisition, review of internal control, review of compliance by overseas operations, and received RMB22.32 million for such professional non-audit services.

Shareholders' Rights

The Bank has complied with the laws and regulations of its places of listing as well as the rules and guidelines of relevant regulatory authorities, and has taken various measures in accordance with the Articles of Association of the Bank and the Rules of Procedures for the Shareholders' General Meeting, with a view to ensuring that shareholders could exercise their rights.

The Bank diligently discharged its obligation of information disclosure to ensure that shareholders could exercise their right to information. The Bank has been following the principles of truthfulness, accuracy, completeness and timeliness, and has complied with regulatory regulations on information disclosure in Hong Kong and Shanghai, strengthened the management of information disclosure, performed the obligation of information disclosure diligently, and strived to enhance the level of information disclosure and corporate transparency of the Bank. During the reporting period, the Bank formulated information disclosure regulations, and made revisions in accordance with the "Administrative Measures on Information Disclosure of Listed Companies" issued by CSRC and the "Guidelines on Information Disclosure Management System of Listed Companies" issued by SSE. The Bank also established administrative measures on internal reporting of material information to regulate the management of various operations reporting to the Board of Directors.

The Bank ensured that shareholders could exercise their right to participate and vote in meetings. During the reporting period, the date, content and delivery method of the notices of shareholders' general meeting, the mode of announcement, and procedures for shareholders' proposals complied with the relevant provisions of the Company Law of the PRC and the Articles of Association of the Bank, ensuring the shareholders could exercise their right of participation in the shareholders general meetings. As a company listed in Shanghai and Hong Kong, the Bank held the Annual General Meeting for 2006 in the form of video conference in Beijing and Hong Kong simultaneously with a view to ensuring that domestic and overseas shareholders enjoy the same right to participate in the Annual General Meeting, which facilitated shareholders to attend the meeting, exercise their voting rights, participate in discussions and present suggestions. It is unprecedented for a listed company to hold a shareholders' general meeting simultaneously in more than one place, and the meeting was well received by domestic and overseas investors.

Shareholder Enquiries. If a shareholder wishes to make any enquiry regarding share transfer, changes in name or address, reporting loss of share certificates and dividend notes or any other information related to his/her shares, he/she may write to the Bank at the following address:

A Shares: China Securities Depository and Clearing Corporation Limited, Shanghai Branch
36/F, China Insurance Building, 166 East Lujiazui Road, Pudong New Area, Shanghai, PRC
Telephone: 86-21-58708888
Facsimile: 86-21-58899400

H Shares: Computershare Hong Kong Investor Services Limited
1806–1807, 18/F, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong
Telephone: 852-2862-8628
Facsimile: 852-2865-0990/852-2529-6087

Investor Relations

Objectives

The Bank's investor relations work aims at facilitating accurate, timely, unambiguous and mutual communications with investors on its strategic plans, corporate governance, operating performance, financial position and development prospects of the Bank based on regulated and sufficient disclosure of information and the principles of honesty, fairness and interactive communication. This is to maintain the transparency of the Bank's corporate governance and the linkage between the market value of the Bank's stocks and their intrinsic value, and to continuously enhance the value of the Bank, protect investors' legitimate rights and interests and maximize shareholders' interests via feedback from shareholders to the senior management of the Bank.

Overview of Investor Relations Activities in 2007

2007 is the first year that the Bank accessed the capital markets after the simultaneous offering of A and H shares. During the year, the Bank strived for regulated, refined and professional investor relations management, and made significant progress.

Establishment of investor relations management system. The Bank improved its investor relations management system, refined its investor database and promoted the construction of operating information collection templates to ensure the efficient and orderly management of investor relations.

Establishment of systematic and professional organizational structure of investor relations management. The Bank formed a multi-level investor relations communication team consisting of the Chairman, the Senior Management, heads of relevant departments and investor relations management personnel, and established a reverse road show base for all investors of the Bank and a platform for investors to gain a more thorough understanding of the Bank's operations.

Adequate, timely and efficient interactive communication with investors. The Bank maintained the depth and breadth of communications with investors through global road shows, investor forums, reverse road shows, group promotions, one-to-one meetings, video conferences, global telephone conferences, investor websites, investor hotlines and investor emails, and released relevant operational information to investors, potential investors and analysts in compliance with laws and regulations. Furthermore, the Bank analyzed investors' suggestions on its strategy, operations management and service systems for the continuous enhancement of its corporate governance and internal values.

In the coming year, the Bank will further improve the methods of communication with investors and enhance investors' understanding of the Bank. The Bank also looks forward to obtaining more support and attention from investors.

Investor Enquiries

If an investor wishes to make any related enquiries, please contact:
Telephone: 86-10-66108608
Facsimile: 86-10-66108522
E-mail: ir@icbc.com.cn
Address: Corporate Strategy and Investor Relations Department, Industrial and Commercial Bank of China Limited, 55 Fuxingmennei Avenue, Xicheng District, Beijing, PRC
Postal code: 100032

Other Information

Investors may visit the website of the Bank (www.icbc-ltd.com) or the "HKExnews" website of SEHK (www.hkexnews.hk) to read the English or Chinese version of the Annual Report.

The organizational charts and a summary of the responsibilities of the Bank's Board of Directors and its special committees, the Board of Supervisors and its special committee and the Senior Management are also available at the Bank's website. If investors have any questions about obtaining the Annual Report or accessing the documents on our website, please call our hotline 86-10-66108608.

Introduction to the Shareholders' General Meeting

During the reporting period, the Bank convened and held one annual shareholders' general meeting and three extraordinary shareholders' general meetings. A total of 15 resolutions were passed at these meetings. Each meeting was convened in compliance with relevant legal procedures which safeguarded shareholders' participation and exercise of rights. These meetings were held in the presence of lawyers who also issued legal opinions. Details of the meetings are as follows:

Annual General Meeting

The Annual General Meeting for 2006 was held on 12 June 2007 in Beijing and Hong Kong simultaneously by way of video conference. The announcement of the poll results of the annual general meeting was published on the website of SEHK on 12 June 2007, and in the newspaper designated for information disclosure and on the websites of SSE and the Bank on 13 June 2007.

Extraordinary General Meetings

The First, Second and Third Extraordinary General Meetings for 2007 of the Bank were held in Beijing on 21 March 2007, 26 October 2007, and 13 December 2007, respectively.

The announcements of the poll results of the above extraordinary general meetings were published on the website of SEHK on 22 March 2007, 26 October 2007, and 13 December 2007, respectively, and in the newspaper designated for information disclosure and on the websites of SSE and the Bank on 22 March 2007, 27 October 2007, and 14 December 2007, respectively.

Report of the Board of Directors

Principal Business

The principal business of the Bank is the provision of banking and related financial services.

Profits and Dividends Distribution

With the approval of the 2006 Annual General Meeting held on 12 June 2007, the Bank distributed cash dividends of RMB5,344 million, or RMB0.016 per share (including tax), for the period from 23 October 2006 to 31 December 2006 to the shareholders who appeared on the register of shareholders as of 20 June 2007.

The Board of Directors of the Bank proposed a dividend of RMB0.133 per share (including tax) in cash for the financial year ended 31 December 2007 (total RMB44,425 million), which will be subject to approval at the forthcoming 2007 Annual General Meeting.

Reserves

Changes in the reserves during 2007 are set out in "Financial Statements: Consolidated Statement of Changes in Equity".

Distributable Reserves

Details of the distributable reserves of the Bank as of 31 December 2007 are set out in "Note 40 to the Financial Statements: Reserves".

Financial Summary

The summary of published results, assets and liabilities for the five years ended 31 December 2007 is set out in the section headed "Financial Highlights" of this Annual Report.

Donations

During the reporting period, the Bank made donations totalling RMB20.0919 million to community/charitable projects.

Property and Equipment

Changes in property and equipment for the year ended 31 December 2007 are set out in "Note 30 to the Financial Statements: Property and Equipment" in this Annual Report.

Subsidiaries

Particulars of the Bank's principal subsidiaries as of 31 December 2007 are set out in the section headed "Discussion and Analysis — Business Overview — Internationalized and Diversified Operation" and "Note 28 to the Financial Statements: Investments in Subsidiaries" in this Annual Report.

Public Float

Changes in the issued share capital of the Bank in this financial year are set out in "Note 39 to the Financial Statements: Share Capital".

As at the bulk printing date of this Annual Report, the Board of Directors of the Bank believes that the Bank has maintained sufficient public float, based on publicly available information.

Purchase, Sale or Redemption of Shares

During the reporting period, neither the Bank nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Bank.

Details of Issuance of Shares

On 27 September 2007, ICBC (Asia) announced the issuance of 126,625,283 warrants exercisable during the period from 7 November 2007 to 6 November 2008, with each warrant authorizing its holder the right to purchase one share at a price of HKD20 per share. ICBC (Asia) may receive a total of subscription monies of approximately HKD2,532,505,660 (before deduction of expenses) if all of the warrants are exercised. During this financial year, 76,341,234 warrants were exercised, of which ICBC had subscribed for 76,338,660 shares, and ICBC (Asia) received a total of subscription monies of HKD1,526,824,680.

Save for the aforementioned, neither the Bank nor any of its subsidiaries were involved in any issuance, repurchase or grant of convertible securities, options, warrants or other similar rights during the reporting period.

Pre-emptive Rights

The Articles of Association of the Bank do not have any mandatory provision regarding pre-emptive rights. Pursuant to the Bank's Articles of Association, the Bank can increase its registered capital by issuing shares through public or non-public offerings, issuing bonus shares to the existing shareholders, converting capital reserve to share capital or using other methods as stipulated by laws and administrative regulations or approved by relevant departments.

Major Customers

In 2007, the Bank's aggregate interest income and other operating income from its top five customers did not exceed 30% of the Bank's interest income and other operating income for the year.

Use of Proceeds from the IPO

The funds raised from the Bank's IPO were used for the purposes disclosed in the IPO prospectus, being strengthening the capital base of the Bank to support the ongoing growth of the Bank's business.

Material Investment of Funds not Raised from the IPO

During the reporting period, the Bank did not have any material investment of funds not raised from the IPO.

Directors' and Supervisors' Interest in Contracts of Significance

During the reporting period, none of the directors or supervisors of the Bank had a material interest, whether directly or indirectly, in any contract of significance regarding the Bank's business to which the Bank or any of its subsidiaries was a party. None of the Bank's directors or supervisors has entered into any service contract with the Bank which is not determinable by the Bank within one year without payment of compensation, other than under normal statutory obligations.

Directors' Interest in Competing Business

None of the Bank's directors held any interest in any business that competes or competed or is or was likely to compete, either directly or indirectly, with the Group.

Directors' and Supervisors' Rights to Acquire Shares or Debentures

As of 31 December 2007, the Bank did not grant to any of its directors or supervisors any rights to acquire shares or debentures, nor were any such rights exercised by any of the directors or supervisors. Neither the Bank nor its subsidiaries entered into any agreement or arrangement enabling the directors or supervisors to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Interests in Shares, Underlying Shares, and Debentures Held by Substantial Shareholders and other Persons

Director's Interests

As of 31 December 2007, none of the directors or supervisors of the Bank had any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance of Hong Kong) which have to be notified to the Bank and SEHK under Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance of Hong Kong (including interests or short positions therein that they shall be deemed to have pursuant to such provisions of the Securities and Futures Ordinance of Hong Kong), or any interests or short positions which have to be recorded in the register under Section 352 of the Securities and Futures Ordinance of Hong Kong, or any interests or short positions which have to be notified to the Bank and SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules.

Substantial Shareholders and Persons having Interests or Short Positions that are Disclosable Pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance of Hong Kong

As of 31 December 2007, the Bank had been informed by the following persons that they had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the Securities and Futures Ordinance of Hong Kong:

HOLDERS OF A SHARES

Name of Substantial Shareholders	Capacity	Number of A Shares Held	Nature of Interest	Approximate Percentage of Issued A Shares (%)	Approximate Percentage of Total Issued Shares (%)
MOF	Beneficial owner	118,006,174,032	Long position	47.02	35.33
Huijin	Beneficial owner	118,006,174,032	Long position	47.02	35.33

HOLDERS OF H SHARES

Name of Substantial Shareholders	Capacity	Number of H Shares Held	Nature of Interest	Approximate Percentage of Issued H Shares (%)	Approximate Percentage of Total Issued Shares (%)
SSF(1)	Beneficial owner	17,383,907,559	Long position	20.93	5.20
Goldman Sachs(2)	Beneficial owner	16,476,014,155	Long position		
	Interest of controlled corporations	369,101,477	Long position		
	Total	16,845,115,632		20.28	5.04
Allianz(3)	Interest of controlled corporations	7,336,585,122	Long position	8.83	2.20
	Interest of controlled corporations	696,401,107	Short position	0.84	0.21

Notes: (1) According to the register of shareholders as of 31 December 2007, SSF held 14,102,149,559 shares in the Bank.

(2) According to the register of shareholders as of 31 December 2007, Goldman Sachs held 16,476,014,155 shares in the Bank.

(3) According to the register of shareholders as of 31 December 2007, DRESDNER BANK LUXEMBOURG S.A. (Allianz holds shares in the Bank through its wholly-owned subsidiary, DRESDNER BANK LUXEMBOURG S.A.) held 6,432,601,015 shares in the Bank.

Connected Transactions

Continuing Connected Transactions Defined under the Hong Kong Listing Rules

Continuing Connected Transactions with the BEA Group

The Bank of East Asia, Limited ("BEA" and, together with its associates, the "BEA Group") holds 25% equity interest in the Bank's non-wholly owned subsidiary, ICEA. According to the Hong Kong Listing Rules, BEA is a substantial shareholder of a subsidiary of the Bank. Therefore, BEA and its associates are connected persons of the Bank.

During the reporting period, the Bank engaged in fixed-income securities transactions, foreign exchange transactions, derivatives transactions, money market instruments transactions and forfaiting transactions with the BEA Group on normal commercial terms. Such transactions constitute connected transactions of the Bank.

In order to document the foregoing continuing connected transactions, the Bank and BEA Group entered into an inter-bank transactions master agreement (the "Inter-bank Transactions Master Agreement") on 26 September 2006, which came into effect when the Bank was listed. Pursuant to the agreement, the Bank and BEA Group agreed that the above-mentioned transactions shall be conducted in accordance with applicable normal inter-bank market practices and on normal commercial terms. Such transactions are conducted in the usual course of the Bank's business. The Inter-bank Transactions Master Agreement is valid for a period of three years starting from the date of signing and, with the consent of both parties, may be extended for another three years upon expiration.

At the time of the IPO, the Bank applied to SEHK for a waiver under 14A.42(3) of the Hong Kong Listing Rules:

(1) from strict compliance with the announcement (but not reporting) and independent shareholders' approval requirements (if applicable) under the Hong Kong Listing Rules for non-exempt connected transactions, and SEHK has granted such waiver; and

(2) from strict compliance with the requirement to set an annual limit for non-exempt connected transactions, and SEHK has granted such waiver.

During the reporting period, neither the total amount of payments made by the Bank to the BEA Group nor that of payments made by the BEA Group to the Bank under the Inter-bank Transactions Master Agreement the applicable percentage ratios of which (other than the profit ratio which is not applicable) under Rule 14.07 of the Hong Kong Listing Rules exceeded 0.1%. Pursuant to Rule 14A.33(3) of the Hong Kong Listing Rules, the foregoing connected transactions are exempted from the reporting, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules.

Non-exempt Continuing Connected Transactions with Credit Suisse Group

Credit Suisse ("Credit Suisse", and together with its associates, the "Credit Suisse Group") holds 25% equity interest in our non-wholly owned subsidiary, ICBC Credit Suisse Asset Management. In accordance with the Hong Kong Listing Rules, Credit Suisse is a substantial shareholder of a subsidiary of the Bank. Therefore, Credit Suisse and its associates are connected persons of the Bank.

During the reporting period, the Bank engaged in fixed-income securities transactions, foreign exchange transactions, money market instruments transactions, equity shares and equity-linked securities transactions, listed and over-the-counter derivatives transactions, custodian services, and investment banking services with Credit Suisse Group on normal commercial terms. Such transactions constitute connected transactions of the Bank.

In order to formalize the foregoing continuing connected transactions, the Bank and Credit Suisse entered into a master services agreement (the "Credit Suisse Master Services Agreement") on 26 September 2006, which came into effect when the Bank was listed. Pursuant to the agreement, the Bank and Credit Suisse Group agreed to conduct the above-mentioned transactions according to applicable normal market practices and on normal commercial terms. Such transactions are conducted in the usual course of the Bank's business. The Credit Suisse Master Services Agreement is valid for a period of three years starting from the date of signing and, with the consent of both parties, may be extended for another three years upon expiration.

At the time of the IPO, the Bank applied to SEHK for a waiver under Rule 14A.42(3) of the Hong Kong Listing Rules:

(1) from strict compliance with the announcement (but not reporting) and independent shareholders' approval requirements (if applicable) under the Hong Kong Listing Rules for non-exempt connected transactions, and SEHK has granted such waiver; and

(2) from strict compliance with the requirement to set an annual limit for non-exempt connected transactions, and SEHK has granted such waiver.

Transactions between the Bank and Credit Suisse Group pursuant to the Credit Suisse Master Services Agreement amounted to RMB62,773 million during the reporting period.

REVIEW AND CONFIRMATION ON CONTINUING CONNECTED TRANSACTIONS BY INDEPENDENT NON-EXECUTIVE DIRECTORS OF ICBC

The independent non-executive directors of the Bank reviewed the continuing connected transactions which the Bank conducted with the BEA Group and the Credit Suisse Group within the reporting period, and confirmed that:

1. such transactions were the ordinary businesses of the Bank;
2. such transactions were conducted on normal commercial terms; and
3. such transactions were carried out in accordance with the terms of relevant agreements, and such terms were fair and reasonable and in the interest of the Bank's shareholders as a whole.

CONFIRMATION BY AUDITORS ON CONTINUING CONNECTED TRANSACTIONS

The Bank's auditors have examined the foregoing continuing connected transactions and confirmed that:

1. such transactions were approved by the Board of Directors of the Bank;
2. such transactions were conducted in accordance with the pricing policies of the Bank; and
3. such transactions were entered into in accordance with the relevant agreements governing these transactions.

Connected Transactions as Defined by the SSE Listing Rules

Connected Transactions with Goldman Sachs and SSF

As of the end of 2007, Goldman Sachs and SSF held about 5.04% and 5.20% of the Bank's shares, respectively. Pursuant to the provisions of the SSE Listing Rules, both of them are connected persons of the Bank.

Please refer to "Note 46 to the Financial Statements: Related Party Disclosures" for particulars of the connected transactions the Bank entered into with Goldman Sachs and SSF during the reporting period. In the opinion of the Bank, all such transactions were carried out in the usual course of the Bank's business and on normal commercial terms and will not affect the independence of the Bank.

Related Party Transactions as Defined by the Accounting Standards

Please refer to "Note 46 to the Financial Statements: Related Party Disclosures" for particulars on the related party transactions the Bank entered into with MOF, Huijin and other related parties.

Remuneration Policy for Directors, Supervisors and Senior Management Members

The Bank has clearly documented the compensation policy for directors, supervisors and senior management members, and has continuously improved performance assessment mechanisms and incentive restriction mechanisms. In accordance with the principle of combining incentives and restrictions as well as individual performance and team contribution, the Bank adopted a system composed of balanced scorecard-based indicators for management and duties allocation based indicators for individuals. The Bank has contributed to statutory retirement programs organized by Chinese governmental organizations at different levels for people such as executive directors, supervisors (except external supervisors) and senior management members. Upon obtaining all applicable approvals, the Bank will implement a long-term incentive program. As of 31 December 2007, the Bank has not granted any share appreciation rights to any director, supervisor, member of the senior management, or other core business personnel to be determined by the Board of Directors.

Auditors

The 2007 financial statements of the Bank which were prepared in accordance with the CASs were audited by Ernst & Young Hua Ming, and the financial statements prepared in accordance with the IFRSs were audited by Ernst & Young.

Members of Board of Directors

The directors of ICBC during the financial year were as follows:

Executive Directors: Jiang Jianqing, Yang Kaisheng, Zhang Furong, Niu Ximing;

Non-executive Directors: Fu Zhongjun, Kang Xuejun, Song Zhigang, Wang Wenyan, Zhao Haiying, Zhong Jian'an, Christopher A. Cole;

Independent Non-executive Directors: Leung Kam Chung, Antony, John L. Thornton, Qian Yingyi, Xu Shanda.

By order of the Board of Directors

Jiang Jianqing

Chairman

Meetings of the Board of Supervisors and its Special Committees

Meetings of the Board of Supervisors

During the reporting period, the Board of Supervisors held five meetings and passed 11 resolutions including the final accounts of the Bank for 2006, the annual report and abstract, the profit distribution plan, 2007 periodic reports as well as the reports on supervision. The Board of Supervisors considered seven reports on specific issues.

ATTENDANCE RECORD OF SUPERVISORS IN MEETINGS

Members of the Board of Supervisors	Actual attendance/Number of meetings requiring attendance	Attendance rate (%)
Wang Weiqiang	5/5	100
Wang Chixi	5/5	100
Wang Daocheng	5/5	100
Miao Gengshu	5/5	100
Zhang Wei	5/5	100

Meetings of Supervision Committee

During the reporting period, the Supervision Committee held five meetings and passed nine resolutions, including the 2007 work plan of the Supervision Committee, the proposal of the Board of Supervisors regarding the implementation of the supervision and inspection plan in 2007 and the amendments to the terms of reference of the Supervision Committee of the Board of Supervisors.

ATTENDANCE RECORD OF MEMBERS OF THE BOARD OF SUPERVISORS IN MEETINGS OF THE SUPERVISION COMMITTEE

Members of the Board of Supervisors	Actual attendance/Number of meetings requiring attendance	Attendance rate (%)
Wang Daocheng	5/5	100
Wang Chixi	5/5	100
Miao Gengshu	5/5	100

Work Performed by the Board of Supervisors

During the reporting period, the Board of Supervisors has driven the Bank to further improve its corporate governance, strengthen its operations management and realize sustainable, sound and rapid development of all businesses in compliance with its duties vested by applicable laws, regulations and the Articles of Association of the Bank, by exercising powers pursuant to applicable laws and by performing its work in a diligent and pragmatic manner:

Strengthen financial supervision and facilitate further enhancement of financial management in the Bank. The Board of Supervisors placed emphasis on areas such as material financial receipts and disbursements of the Bank, accounting and bookkeeping items with material influences on its operating results and issues materially affecting the owners' equity and work quality of external auditors. Members of the Board of Supervisors regularly reviewed reports from the internal audit department on financial audits and periodic reports from external auditors on the audit status, and further enquired with the auditors regarding issues which drew their attention and requested further verification. The Board of Supervisors issued letters of enquiry to 24 branches and conducted onsite inspection of the financial management, accounting and bookkeeping process of related departments in the Head Office and six branches.

Strengthen supervision of the performance of duties by the Board of Directors, the Senior Management and their members, and promote scientific and effective decision-making. The Board of Supervisors closely monitored compliance with laws, regulations and the Articles of Association of the Bank by the Board of Directors, the Senior Management and their members. The Board of Supervisors supervised the performance of duties by members of the Board of Directors and Senior Management through attending meetings, and inspection of meeting materials and records as well as information on issues being reviewed and approved in such meetings. The Board of Supervisors also performed special investigations into and examinations of the decision-making process of overseas equity investments, implementation of resolutions passed at general meetings by the Board of Directors, connected transactions and enforcement of the information disclosure systems of the Bank. The Board of Supervisors will communicate with the Board of Directors and the Senior Management on a timely basis concerning problems relating to corporate governance and operations management of the Bank, which require further improvement and attention, discovered during its supervision. The Board of Supervisors also sent out the "Circular of Supervision and Examination Findings in 2006 and the First Quarter of 2007" and the "Opinions and Suggestions on Further Strengthening the Operations Management".

Reinforce the supervision of risk management and internal controls and promote compliant and stable operations. The Board of Supervisors placed emphasis on the establishment and operation of a comprehensive risk management system, the effectiveness of internal control systems and other issues of the Bank. The Board of Supervisors adopted the approach of combining offsite inspections and onsite inspections, periodically monitored, analyzed and examined risk management and internal controls, discovered existing problems and weaknesses in a timely manner, and sent letters to related departments in the Head Office and 12 branches in relation to suggestions for strengthening management and promptly reminding them of risks.

Members of the Board of Supervisors worked diligently and practically and fulfilled their duties earnestly. They participated in meetings of the Board of Supervisors and the Supervision Committee during the reporting period, attended the Annual General Meeting of 2006 and the three Extraordinary General Meetings in 2007. They also attended all the meetings held by the Board of Directors and its special committees and some meetings held by the Senior Management as non-voting attendees. Members of the Board of Supervisors earnestly participated in consideration of the resolutions and provided the Board of Directors with valuable opinions and suggestions. They researched and investigated 14 provincial branches and participated in the training sessions hosted by Beijing Securities Regulatory Administration.

Self-development of the Board of Supervisors was further strengthened. The Board of Supervisors reviewed and adopted the "Supervisory Measures of the Board of Supervisors on the Board of Directors, the Senior Management and their Members", amended the "Terms of Reference of the Supervision Committee of the Board of Supervisors", and commenced researching and formulating the assessment and evaluation measures for supervisors.

Independent Opinions of the Board of Supervisors on Relevant Issues

Legal Operations

During the reporting period, the Bank continued to operate in strict compliance with laws and regulations and continued to improve its risk management and internal control. Its procedures in relation to decision-making complied with the laws, regulations and the Articles of Association of the Bank. Members of the Board of Directors, the Senior Management earnestly performed their duties. The Board of Supervisors did not find any violation of laws and regulations, or any act that contravened the interest of the Bank during the reporting period.

Authenticity of Financial Statements

The annual financial statements of the Bank reflected the financial position and operating results of the Bank truly and fairly.

Use of Proceeds from the IPO

During the reporting period, the use of proceeds from the IPO was consistent with the purpose stated in the prospectus.

Purchase and Sale of Assets

During the reporting period, the Board of Supervisors did not find any insider trading or any act that contravened the shareholders' interests or caused the loss of the Bank's assets in the process of the Bank's purchase and sale of assets.

Connected Transactions

During the reporting period, the connected transactions of the Bank were entered into on normal commercial terms. The Board of Supervisors did not find any act that contravened the interest of the Bank.

Implementation of Resolutions Passed at the Shareholders' General Meeting

During the reporting period, the Board of Supervisors had no objection to the reports or proposals submitted by the Board of Directors presented to the Shareholders' General Meeting for consideration. The Board of Directors earnestly implemented the resolutions passed at the Shareholders' General Meeting.

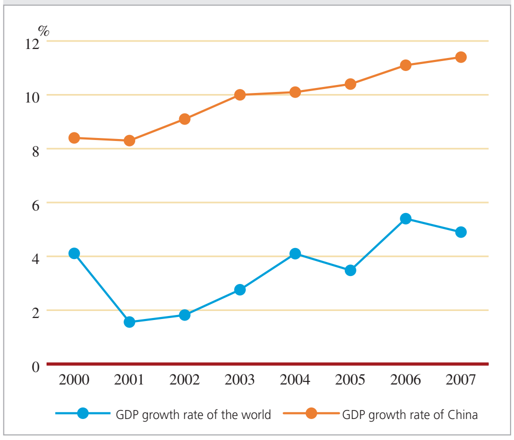
ECONOMIC, FINANCIAL AND REGULATORY ENVIRONMENTS

In 2007, the world economy maintained a momentum of steady growth on the whole. Affected by the sub-prime mortgage crisis, economic growth of the US slowed down remarkably. GDP of the US increased by 2.2% in 2007, which represented a decrease of 0.7 percentage point as compared to that of last year and became the lowest growth rate since 2002. The Euro zone is facing a risk of economic slowdown, with the growth rate of GDP at 2.7% in 2007, dropping by 0.1 percentage point compared to that of previous year. Economic growth of Japan was slowing down, with a growth rate of 2.1% in GDP in 2007, a decrease of 0.3 percentage point year-on-year. However, the economic growth of major emerging economies and developing countries and regions remained robust. China's economy continued to grow rapidly.

In 2007, the exchange rate of US dollar against Euro and Japanese Yen showed an overall downward trend. The yield of major bonds in the international market rebounded steadily in the first half of 2007, and went down again in the second half. Due to the sub-prime mortgage crisis in the US and the intensified uncertainties of the future economic growth, interest rates in the international financial market and major stock indices fluctuated sharply, with the real estate market of the US experiencing a continual decline. Under the increasing possibility of economic downturn, the Federal Reserve reduced the Fed funds target rate by one percentage point cumulatively over the second half of the year. The Bank of England also lowered its official interest rate by 25 basis points for the first time in the past two years.

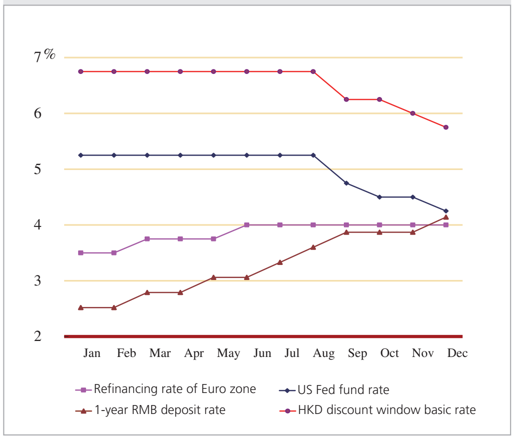
In 2007, the China's economy was on a continual rapid growth. It showed a trend of rapid growth, structural optimization, higher level of efficiency and improvement in people's livelihood. GDP stood at RMB24.66 trillion with an increase of 11.4%, which was 0.3 percentage point higher than the growth rate in the previous year. The growth of industrial production accelerated with improvements in operating results of enterprises. Investments in fixed assets and real estate development increased rapidly. Total investment in fixed assets reached RMB13.72 trillion with an increase of 24.8%, 0.9 percentage point higher than the growth rate in the last year. Sales rose rapidly and proved an accelerated growth in the market. Total retail sales of consumer goods amounted to RMB8.92 trillion with an increase of 16.8%, 3.1 percentage points higher than that in the previous year. Consumption rose rapidly, with the consumer price index (CPI) increased by 4.8% in 2007, 3.3 percentage points higher than that of last year. Volume of foreign trade increased relatively quickly, and the amount of foreign direct investment continued growing. Imports and exports trade amounted to USD2,173.83 billion, represented an increase of 23.5%. Trade surplus amounted to USD262.20 billion, represented an increase of 47.7%. Income of residents increased rapidly, and more job opportunities were created. The main problems of economic operation are as follows: the risk of economic growth turning from fast-growing to overheated; increasing pressure of inflation; existence of structural anomalies; the comparatively unorganized economic development; and imperfect system and mechanism.

GDP Growth Rate of the World[1] and China Since 2000



Data sources: National Bureau of Statistics, the World Bank and the International Monetary Fund.

Changes in Interest Rates of Major Countries and Regions in 2007



Data source: Bloomberg.

1 GDP growth rate of the world in 2007 was predicted by the IMF.

In 2007, monetary policy gradually turned from being "prudent" to "tight". PBOC took comprehensive measures to strengthen the liquidity management of banking system, make use of the interest rate lever, control growth of monetary credit, and guide the optimization of credit structure. In response to the dynamic changes in liquidity, PBOC has raised the RMB mandatory deposits reserve ratio 10 times, whereby the ratio was increased by 5.5 percentage points from 9.0% to 14.5% currently, hitting a record high since the reserve deposit ratio was unified in 1985. PBOC has raised the benchmark interest rates of RMB deposits and loans 6 times. It also increased the benchmark interest rate of 1-year time deposit by 1.62 percentage points from 2.52% to 4.14% currently, and increased the benchmark interest rate of 1-year term loan by 1.35 percentage points from 6.12% to 7.47% currently. Furthermore, the central bank issued bills 5 times in a year to enhance the open market operations.

The two-way floating of RMB exchange rate further utilized the fundamental effect of demand and supply on the foreign exchange market, and the exchange rate of RMB recorded an overall appreciation. Since 21 May 2007, the floating range of RMB exchange rate against US dollar on the inter-bank spot exchange market has expanded from 0.3% to 0.5%. The elasticity of RMB exchange rate was further enhanced. At the end of 2007, the mid exchange rate of RMB against US dollar was 7.3046, appreciating by 6.90% compared to that of the previous year. From the exchange rate reform to the end of 2007, the exchange rate of RMB against US dollar appreciated by 13.31%. Shibor has been operating stably since 4 January 2007, and its role as a benchmark rate is stepping up. The number of financial products that take Shibor as the benchmark is increasing.

In 2007, despite the fact that the growth rate of monetary credit has slowed down to a certain extent and the operation of the financial market remained stable, pressure on credit expansion was still huge. At the end of 2007, the balance of general money supply (M2) was RMB40.34 trillion, an increase of 16.7%, and that of narrow money supply (M1) was RMB15.25 trillion, up 21%. The balance of domestic and foreign currency deposits in financial institutions amounted to RMB40.11 trillion, rose by 15.2%, of which RMB deposits increased by 16.1% to RMB38.94 trillion. The balance of domestic and foreign currency loans in financial institutions amounted to RMB27.77 trillion, up 16.4%, of which RMB loans increased by 16.1% to RMB26.17 trillion. China's foreign exchange reserve stood at USD1.53 trillion with an increase of 43.3%. The interest rates in the money market were on the rise along with volatile fluctuation, and the yield curve of bond market ascended on the whole. The inter-bank market continued to have a healthy development. Cumulative transactions volume in the inter-bank borrowing market reached RMB10.65 trillion, with an increase of 395.1%. RMB bonds issued in the inter-bank bond market stood at RMB3.74 trillion, up 95.9%.

In 2007, transactions in the capital market were active, stock index went up rapidly, and the volume of stock transactions and funds raised both hit a record high. The fund market also developed rapidly. Chinese enterprises raised RMB852.2 billion in the domestic and overseas stock markets through IPOs, placements and right issues, represented an increase of 52.4%, hitting a record high. Of which, funds raised in the A-share market reached RMB752.1 billion, increased by 2.1 times, and accounted for 88.3% of the total. The transactions in the secondary stock market were also active. The stock index fluctuated at a high level after reaching the peak, and the turnover surged significantly. The cumulative volume of transactions of Shanghai and Shenzhen stock market reached to RMB46.1 trillion in 2007, which broke the record. Average daily turnover reached RMB190.3 billion, increased by 4.1 times. 60.50 million of new stock investment accounts were opened during the year, increased by 10.5 times. Due to the significant increase in demand for fund wealth management services, the fund market demonstrated a rapid upward trend. At the end of 2007, there were 346 securities investment funds, increased by 45 as compared to previous year. The sales amount of fund reached RMB2.2 trillion, increased by RMB1.6 trillion or 2.7 times. The amount of underlying assets held by fund companies reached RMB3.3 trillion, represented a three-fold increase. At the end of 2007, Shanghai and Shenzhen composite indices were 5262 and 1447 points, respectively, which represented 97% and 163% increase as compared to previous year.

In 2008, driven by factors as industrialization, urbanization, internationalization and upgrading of industrial and consumption structure, national economy will continue to grow rapidly. However, with the increase in the uncertainties of international economy and gradual emergence of the effect of domestic macro-economic control policy, economic growth may become stable at the high level and slow down moderately. For the price trends, CPI growth will maintain at a high level in the first half of 2008, since the impact of structural supply constraint and external input on the price formation is unlikely to change within a short term.

FINANCIAL STATEMENT ANALYSIS

Income Statement Analysis

In 2007, the Bank highlighted value creation, pushed forward business transformation and enhanced cost control, and achieved continuous and rapid growth of profit after tax. Under the trend of increasing interest rates, the Bank optimized the structure of asset and liability operation; enhanced treasury operation, maintained the growth of low-cost deposits while keeping increase of interest income. The Bank achieved significant growth in net interest income, increased the net interest spread and net interest margin, and improved remarkably the profitability. Seizing the opportunity of capital market development, we accomplished accelerated growth of fee and commission income, with a steady increase in the proportion of net fee and commission income in operating income, and further optimized the revenue structure. In addition, the business cost was under effective control. The cost-to-income ratio was kept at a reasonable level.

In 2007, profit after tax reached RMB82,254 million, representing an increase of RMB32,374 million or 64.9% over the previous year, with an compound annual growth rate of over 38% since 2003. It was mainly due to a RMB74,391 million or 41.0% increase in operating income, of which net interest income increased by 37.3% and the non-interest income surged by 74.4%. The non-interest income accounted for 12.3% of the operating income, 2.3 percentage points higher than that of last year.

CHANGES OF KEY INCOME STATEMENT ITEMS

In RMB millions, except for percentages

Item	2007	2006	Increase/ (decrease)	Growth rate (%)
Net interest income	224,465	163,542	60,923	37.3
Non-interest income	31,564	18,096	13,468	74.4
Operating income	256,029	181,638	74,391	41.0
Less: operating expenses	103,261	77,397	25,864	33.4
Less: allowance for impairment losses	37,406	32,189	5,217	16.2
Operating profit	115,362	72,052	43,310	60.1
Shares of profits and losses of associates	16	13	3	23.1
Profit before tax	115,378	72,065	43,313	60.1
Less: income tax expense	33,124	22,185	10,939	49.3
Profit after tax	82,254	49,880	32,374	64.9
Attributable to:				
Equity holders of the parent company	81,520	49,263	32,257	65.5
Minority interests	734	617	117	19.0

Net Interest Income

Net interest income is the major component of the Bank's operating income. Net interest income reached RMB224,465 million in 2007, representing an increase of 37.3% and accounted for 87.7% of the operating income. Interest income amounted to RMB357,287 million, of which the interest income from loans and advances to customers, interest income from investment in securities and other interest income accounted for 66.6%, 25.7% and 7.7%, respectively.

The table below sets out the average balance of interest-generating assets and interest-bearing liabilities[1], interest income and expenses, and average yield and cost, respectively.

In RMB millions, except for percentages

Item	2007			2006		
	Average balance	Interest income/ expense	Average yield/cost (%)	Average balance	Interest income/ expense	Average yield/cost (%)
Assets						
Loans and advances to customers	3,893,311	237,880	6.11	3,464,384	187,623	5.42
Investment in securities:	3,001,210	91,724	3.06	2,526,516	65,591	2.60
Investment securities not related to restructuring	1,958,873	68,175	3.48	1,450,614	41,036	2.83
Investment securities related to restructuring(1)	1,042,337	23,549	2.26	1,075,902	24,555	2.28
Due from central banks	827,014	14,805	1.79	563,909	10,080	1.79
Due from banks and other financial institutions(2)	307,887	12,878	4.18	241,787	8,355	3.46
Total interest-generating assets	**8,029,422**	**357,287**	**4.45**	**6,796,596**	**271,649**	**4.00**
Liabilities						
Deposits(3)	6,559,635	116,336	1.77	6,015,133	99,076	1.65
Due to banks and other financial institutions(2)	886,071	15,305	1.73	391,574	7,898	2.02
Subordinated bonds	35,000	1,181	3.37	35,000	1,133	3.24
Total interest-bearing liabilities	**7,480,706**	**132,822**	**1.78**	**6,441,707**	**108,107**	**1.68**
Net interest income		**224,465**			**163,542**	
Net interest spread			**2.67**			**2.32**
Net interest margin			**2.80**			**2.41**

Notes: (1) Includes Huarong bonds, special government bonds, MOF receivables and special PBOC bills. Please see "Note 27 to Financial Statements: Financial Investments" for details.

(2) Due from banks and other financial institutions includes the amount of reverse repurchase agreements. Due to banks and other financial institutions includes the amount of repurchase agreements.

(3) Includes due to customers and certificates of deposit.

1 The average balance of interest-generating assets and interest-bearing liabilities represent their daily average balances.

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

In RMB millions

Item	Comparison between 2007 and 2006		
	Increase/(decrease) due to		Net increase/ (decrease)
	Volume	Interest rate	
Assets			
Loans and advances to customers	26,353	23,904	50,257
Investment in securities	16,919	9,214	26,133
Non-restructuring related securities investments	17,710	9,429	27,139
Restructuring related securities investments	(791)	(215)	(1,006)
Due from Central bank	4,725	—	4,725
Due from banks and other financial institutions	2,782	1,741	4,523
Changes in interest income	**50,779**	**34,859**	**85,638**
Liabilities			
Deposits	10,042	7,218	17,260
Due to banks and other financial institutions	8,543	(1,136)	7,407
Subordinated bonds	—	48	48
Change in interest expense	**18,585**	**6,130**	**24,715**
Change in net interest income	**32,194**	**28,729**	**60,923**

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

Net Interest Spread and Net Interest Margin

In 2007, the return on assets has been improved as a result of changes in the structure of assets and liabilities of the Bank. Although interest rates are on the rise, increase in deposit interest rate was kept at a moderate level by optimizing deposit structure. The Bank achieved remarkable improvement in the profitability of its asset and liability operations. The net interest spread and net interest margin stood at 2.67% and 2.80%, respectively, representing an increase of 35 and 39 basis points as compared to the previous year.

Due to the increases of the PBOC benchmark lending rate for 6 times during the year and the improvement in quality and mixture of the Bank's loan book, the average yield of loans to customers increased from 5.42% in the last year to 6.11% in 2007. The upturn in investment yield curve and adjustment to the investment portfolio resulted in an increase of average yield on investment in securities from 2.60% in the past year to 3.06% in 2007. Besides, the average yield of amount due from banks and other financial institutions increased from 3.46% to 4.18%, due to the increase of average interest rates in the inter-bank money market and intensification of two-way currency operation. As a result of the above, the average yield of interest-generating assets increased by 45 basis points to 4.45%. In addition, notwithstanding the rise of benchmark interest rate for time deposits, the deposit structure was adjusted and accordingly the average cost of deposits from customers only increased slightly to 1.77% from 1.65% in the previous year, and the average cost of interest-bearing liabilities increased by 10 basis points to 1.78%. As the growth in average yield on interest-generating assets far exceeded that of interest-bearing liabilities, the net interest spread and net interest margin increased in the year.

The table below summarises the changes in yield on interest-generating assets, cost of interest-bearing liabilities, net interest spread and net interest margin:

Percentages

Item	2007	2006	Increase/ (decrease) (basis points)
Yield of interest-generating assets	4.45	4.00	45
Cost of interest-bearing liabilities	1.78	1.68	10
Net interest spread	2.67	2.32	35
Net interest margin	2.80	2.41	39

Interest Income

Interest income amounted to RMB357,287 million, representing an increase of RMB85,638 million or 31.5%. The aggregate growth of interest income from loans and advances to customers and investment in securities contributed to 89.2% of the total increase in interest income. The rise of interest income was mainly attributable to the increase in average balances and average yield of loans and advances to customers and investment in securities.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers constituted the largest component of the Bank's interest income, which accounted for 66.6% of the total interest income. The interest income from loans and advances to customers was RMB237,880 million in 2007, representing an increase of RMB50,257 million or 26.8%. Such growth is mainly attributable to the rise in average yield of loans and advances to customers, from 5.42% in the previous year to 6.11% in 2007, and increase in average loan balance. The rise of average yield was mainly due to: (1) the 6 benchmark interest rate hikes for loans announced by PBOC during 2007; (2) the structure and quality of loans continued to improve, of which the proportion of loans to small enterprises and individuals which yielded higher return increased; and (3) the increase in interest rates announced by PBOC in 2006 became effective for certain loans on 1 January 2007. The average balance of loans and advances to customers grew from RMB3,464,384 million to RMB3,893,311 million, representing an increase of RMB428,927 million or 12.4%, as the Bank has kept a moderate growth of loans in response to the rising interest rates.

ANALYSIS OF AVERAGE YIELD FROM LOANS AND ADVANCES TO CUSTOMERS BY BUSINESS LINES

In RMB millions, except for percentages

	2007			2006		
Item	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	2,743,088	174,441	6.36	2,399,392	139,312	5.81
Discounted bills	354,253	14,343	4.05	421,912	11,135	2.64
Personal loans	664,134	41,869	6.30	534,569	31,169	5.83
Overseas loans	131,836	7,227	5.48	108,511	6,007	5.54
Total loans and advances to customers	**3,893,311**	**237,880**	**6.11**	**3,464,384**	**187,623**	**5.42**

The interest income from corporate loans increased by 25.2% to RMB174,441 million during the year, accounting for 73.3% of the total interest income from loans and advance to customers. It was mainly because the average yield increased from 5.81% to 6.36% and the average balance went up. The increase of the average yield was mainly due to: (1) PBOC raised the benchmark interest rate of loans for 6 times in 2007; (2) the high-yield loans to real estate companies and small-sized enterprises increased; and (3) the loan quality continuously improved.

The interest income from discounted bills rose by 28.8% to RMB14,343 million, mainly due to the fact that the average yield increased from 2.64% to 4.05%, but was partially offset by the decline in the average balance of discounted bills. The daily average balance of discounted bills declined by RMB67,659 million to RMB354,253 million. The growth of average yield was mainly due to: (1) the rising interest rate in the money market drove up the interest rate in the bills market drastically; (2) the Bank successfully launched a market-oriented interest rate pricing mechanism based on Shibor, which linked the interest rate of discounted bills to that in the money market and achieved a pricing mechanism at floating interest rate, thereby enabling the average yield of discounted bills to rise along with the growth of Shibor; and (3) the Bank enhanced the bilateral bill operation, accelerated the turnover of discounted bills assets and drove up the yield rate of discounted assets. The decline in the average balance of discounted bills was mainly attributable to the proactive optimization of credit assets structure by reducing discounted bills business to support other high-yield credit-related business.

The interest income from personal loans increased by 34.3% to RMB41,869 million, mainly because the average yield rose from 5.83% to 6.30% and the average balance increased. The growth of the average yield was mainly due to: (1) PBOC raised the benchmark interest rate of loans for 6 times during the year; (2) the average balance of high-yield personal business loans took up a larger percentage of the total personal loans; (3) a part of the existing loans started to adopt the increased interest rate set by PBOC from 1 January 2007; and (4) the asset quality was further improved.

The interest income from overseas operations increased by 20.3% to RMB7,227 million, mainly because the average balance of loans rose by 21.5% from RMB108,511 million in the previous year to RMB131,836 million. In addition, the average yield dropped by 6 basis points from 5.54% to 5.48%, which partially offset the growth of interest income from loans. The growth of the average balance and the decline of the average yield was mainly derived from the increase of IPO subscription loans with a short term and low interest rate.

Interest Income from Investment in Securities

As the second largest component of the Bank's interest income, interest income from investment in securities accounted for 25.7% of the total interest income, representing an increase of 1.6 percentage point compared with last year. Interest income from investment in securities mainly included the interest income from available-for-sale debt securities, held-to-maturity debt securities and investment in securities related to restructuring.

Interest income from investment in securities increased by RMB26,133 million or 39.8% to RMB91,724 million in 2007, of which interest income from investment in securities not related to restructuring increased by RMB27,139 million. This is mainly because the average balance increased and the average yield rose from 2.83% in the previous year to 3.48% in 2007. Such growth of average yield was mainly due to: (1) the upward movement of investment yield curve in the financial market led to a significant growth of return from new investments; (2) the 6 benchmark interest rate hikes announced by PBOC in 2007, resulted in a growth of bond yields that were set based on 1-year time deposit rate; and (3) the Bank strengthened the management of its investment portfolio by increasing the proportion of its unsecured investments and adjusting the maturity profile of its investment portfolio, while at the same time strengthening its risk management. The interest income from investment in securities related to restructuring decreased by RMB1,006 million or 4.1%. This was mainly because MOF made a RMB32,397 million of principal repayment relating to the receivable from MOF during the reporting period, thereby resulting in a decrease in the average balance.

Interest Income from Due from Central Banks

The amounts due from central banks principally included the mandatory reserve and excess reserve. The Bank earned an interest income of RMB14,805 million from the amounts due from central banks in 2007, representing an increase of RMB4,725 million or 46.9%. It was mainly attributable to the increase in the customer deposit balance and the increase in mandatory reserve ratio stipulated by PBOC for 10 times, thereby the average balance of amount due from central banks increased by 46.7% from RMB563,909 million to RMB827,014 million.

Interest Income from Due from Banks and Other Financial Institutions

Interest income from amounts due from banks and other financial institutions rose by RMB4,523 million or 54.1% to RMB12,878 million, mainly because the average balance increased from RMB241,787 million to RMB307,887 million and the average yield increased by 72 basis points from 3.46% to 4.18%. The growth of average yield was principally attributable to: (1) the rise in average interest rate in the inter-bank money market; (2) the Bank increased bilateral operations to capture the volatility of the market interest rates; and (3) Shibor has gradually been adopted as basis for pricing of the Bank's financing products, which in general raised the revenue.

Interest Expense

Interest expense reached RMB132,822 million, representing an increase of 22.9%. It was primarily due to the increase in average balance of interest-bearing liabilities by RMB1,038,999 million or 16.1% from RMB6,441,707 million to RMB7,480,706 million, and the average cost of interest-bearing liabilities rises from 1.68% in the previous year to 1.78%, as a result of the upward adjustment in benchmark deposits rate by PBOC and the rise of average interest rate in the inter-bank money market.

Interest Expense on Deposits

Deposits have been a major source of the Bank's funding. In 2007, interest expense on deposits reached RMB116,336 million, representing an increase of RMB17,260 million or 17.4%, and accounted for 87.6% of the total interest expense. The growth was mainly due to an increase in the average balance of deposits and an increase in the average cost from 1.65% in 2006 to 1.77%.

PBOC raised the benchmark interest rates of time deposits for 6 times in 2007, of which benchmark interest rate for 1-year deposits accumulatively rose by 1.62 percentage points to 4.14% and that of demand deposits dropped back to 0.72% on 21 December 2007 after uplifting to 0.81% on 21 July 2007. In response to interest rate rising, the Bank adopted various measures to adjust the deposit terms and customer structure, increasing the supply of deposits with low-interest costs, which partially offset the impact from the rise in benchmark interest rate. The average cost went up slightly by 12 basis points to 1.77%.

The average balance of deposits increased by RMB544,502 million or 9.1% in 2007. In view of the customer structure, the average balance of corporate deposits in domestic operations rose by RMB472,717 million or 17.5%, contributed to 86.8% of the total increase in deposits, which was mainly due to the increase in demand deposits from corporate customers and the low-cost deposits from institutional customers; average balance of personal deposits increased by RMB41,837 million, contributed to 7.7% of the total growth, which resulted from the rapid development of the capital market and the increasing awareness for the importance of wealth management. In addition, the customers were encouraged to adjust their allocation of assets and third party custody business has been further developed. As to the maturity structure, the average balance of demand deposits increased by RMB366,243 million or 12.4%, and that of time deposits rose by RMB148,311 million or 5.0%, contributed to 67.3% and 27.2% of the total growth, respectively.

ANALYSIS OF AVERAGE DEPOSIT COST BY PRODUCTS

In RMB millions, except for percentages

Item	2007			2006		
	Average balance	Interest income	Average cost (%)	Average balance	Interest income	Average cost (%)
Corporate deposits						
Time deposits	979,717	25,445	2.60	771,980	18,827	2.44
Demand deposits[1]	2,192,679	21,607	0.99	1,927,699	16,385	0.85
Sub-total	**3,172,396**	**47,052**	**1.48**	**2,699,679**	**35,212**	**1.30**
Personal deposits						
Time deposits	2,131,112	54,892	2.58	2,190,538	52,802	2.41
Demand deposits	1,136,852	9,150	0.80	1,035,589	7,405	0.72
Sub-total	**3,267,964**	**64,042**	**1.96**	**3,226,127**	**60,207**	**1.87**
Overseas deposits[2]	**119,275**	**5,242**	**4.39**	**89,327**	**3,657**	**4.09**
Total deposits	**6,559,635**	**116,336**	**1.77**	**6,015,133**	**99,076**	**1.65**

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

(2) Including certificates of deposit.

Interest Expense on Due to Banks and Other Financial Institutions

Interest expense on amounts due to banks and other financial institutions grew by RMB7,407 million or 93.8% to RMB15,305 million. The growth was mainly attributable to the rise of average balance from RMB391,574 million to RMB886,071 million. However, the growth was partially offset by the decline of average interest cost which dropped by 29 basis points from 2.02% to 1.73%. The growth of average balance was mainly due to active capital market, influx of funds in connection with initial public offering and the enlargement in the scale of third party custody business and fund custody business. The decline of average cost was primarily caused by the increase in weight of amounts due to banks, whose interest rate is lower than placements from banks.

Interest Expense on Subordinated Bonds Issued

Interest expense on subordinated bonds issued increased by RMB48 million to RMB1,181 million, with average interest cost increased from 3.24% to 3.37%, mainly because the coupon rate of some subordinated bonds issued by the Bank in 2005 is based on the 7-day weighted average rate in the inter-bank money market, which in average rose slightly from the previous year. Please see "Note 37 to the Financial Statements: Subordinated Bonds Issued" for details about the subordinated bonds issued by the Bank.

Non-interest Income

Non-interest income contributed significantly to operating income. In 2007, non-interest income reached RMB31,564 million, representing an increase of RMB13,468 million or 74.4%, accounted for 12.3% of the operating income, an increase of 2.3 percentage points.

COMPOSITION OF NON-INTEREST INCOME

In RMB millions, except for percentages

Item	2007	2006	Increase/ (decrease)	Growth rate (%)
Fee and commission income	37,439	18,529	18,910	102.1
Less: fee and commission expense	3,055	2,185	870	39.8
Net fee and commission income	34,384	16,344	18,040	110.4
Other non-interest related gain/(loss)	(2,820)	1,752	(4,572)	–261.0
Total	**31,564**	**18,096**	**13,468**	**74.4**

In 2007, net fee and commission income reached RMB34,384 million, achieving an increase of 110.4%, contributed to 13.43% of the operating income, an increase of 4.43 percentage points. The growth indicated the achievements of the Bank's strategy to diversify the revenue streams, implement service innovation and develop intermediary businesses. As a result, income from wealth management services, trust and other fiduciary business as well as that from e-banking services all grew rapidly.

COMPOSITION OF NET FEE AND COMMISSION INCOME

In RMB millions, except for percentages

Item	2007	2006	Increase/ (decrease)	Growth rate (%)
Wealth management service	15,453	3,214	12,239	380.8
Renminbi settlement and clearing business	5,294	4,656	638	13.7
Bank card business	4,537	3,228	1,309	40.6
Investment banking business	4,505	3,099	1,406	45.4
Trust and other fiduciary activities	1,989	657	1,332	202.7
Agency services	1,498	1,001	497	49.7
Foreign currency intermediary business	1,343	1,006	337	33.5
E-banking services	1,283	693	590	85.1
Guarantees and commitments business	562	433	129	29.8
Others	975	542	433	79.9
Fee and commission income	**37,439**	**18,529**	**18,910**	**102.1**
Less: fee and commission expense	**3,055**	**2,185**	**870**	**39.8**
Net fee and commission income	**34,384**	**16,344**	**18,040**	**110.4**

Income from wealth management services reached RMB15,453 million, representing an increase of RMB12,239 million or 380.8% in the year. The growth was principally attributable to the Bank's great efforts on product innovation and sales of wealth management products, so as to grasp the opportunity of the booming capital market. In 2007, a sum of RMB1,233.9 billion was derived from sales of all sorts of wealth management products, representing a growth of 181.7%.

The income from trust and other fiduciary business increased by RMB1,332 million or 202.7% to RMB1,989 million, mainly due to the increase in size of assets under custody such as from investment funds and Qualified Domestic Institutional Investors ("QDII"). Moreover, the income from fiduciary business also experienced strong growth during the year.

Income from e-banking service increased by RMB590 million or 85.1% to RMB1,283 million, primarily due to the improvement of functions and services for e-banking and the increase in transaction volume of e-banking and agency business.

Income from agency services grew by RMB497 million or 49.7% to RMB1,498 million, owing to the increase in volume of various agency business.

The income from investment banking business increased by RMB1,406 million or 45.4% to RMB4,505 million. The growth was mainly due to the increase in income from investment and financing consulting business, indirect syndicate business and asset securitization.

Income from bank card business increased by RMB1,309 million or 40.6% to RMB4,537 million, mainly due to the rapid growth in the number of new cards issued, transaction volume and the number of POS machines placed which drove the growth of transaction fee income and the annual fee income charged for debit cards.

OTHER NON-INTEREST RELATED GAIN/(LOSS)

In RMB millions, except for percentages

Item	2007	2006	Increase/ (decrease)	Growth rate (%)
Net trading income	1,351	2,138	(787)	–36.8
Net loss on financial assets and liabilities designated at fair value through profit or loss	(1,415)	(1,999)	584	N/A
Net gain on financial investment	499	141	358	253.9
Other operating gain/(loss), net	(3,255)	1,472	(4,727)	–321.1
Total	**(2,820)**	**1,752**	**(4,572)**	**–261.0**

Other non-interest net loss of RMB2,820 million is mainly attributable to other operating loss, net, which is mainly due to the appreciation of RMB which enlarged the foreign exchange translation loss. Net loss on currency translation and exchange rate-linked products to RMB6,881 million. The Bank made use of various investment instruments, and a net trading income of RMB1,351 million and a net gain on financial investment of RMB499 million was recorded.

Operating Expenses

OPERATING EXPENSES

In RMB millions, except for percentages

Item	2007	2006	Increase/ (decrease)	Growth rate (%)
Staff costs	54,899	34,760	20,139	57.9
Supplementary retirement benefits	—	389	(389)	–100
Premises and equipment expenses	14,042	14,419	(377)	–2.6
Other administrative expenses	14,816	11,271	3,545	31.5
Business tax and surcharges	14,511	11,419	3,092	27.1
Amortisation	1,174	1,106	68	6.1
Others	3,819	4,033	(214)	–5.3
Total	**103,261**	**77,397**	**25,864**	**33.4**

Operating expenses rose by RMB25,864 million or 33.4% to RMB103,261 million, and the cost-to-income ratio dropped by 1.66 percentage points to 34.66%.

Staff costs included a one-off charge of RMB12.5 billion. For further details, please refer to "Note 12 to the Financial Statements: Operating Expresses". Excluding the above change, the staff costs rose by 22.0% to RMB42,399 million in the year. As the Bank linked its employees' salary with operating performance, staff costs increased in line with operating income, profits and other operating indicators generally.

Other administrative expenses amounted to RMB14,816 million, representing an increase of 31.5%, demonstrating ICBC's strategy on pursuing profitability growth, while strengthening cost management and control, and improving operating efficiency.

Allowance for Impairment Losses

Allowance for impairment losses increased by RMB5,217 million or 16.2% to RMB37,406 million, of which, allowance for impairment losses on loans and advances to customers reached RMB33,061 million. Please see "Risk Management: Credit Risk" for the changes in allowance for impairment losses on loans and advances to customers. Allowance for loss on available-for-sale financial assets amounted to RMB3,135 million, mainly because the Bank made allowance for impairment loss on US sub-prime mortgage-backed securities. Please see "Analysis of Balance Sheet Items: Investment" for details.

Income Tax Expense

Income tax expense increased by RMB10,939 million or 49.3% to RMB33,124 million. Effective tax rate dropped by 2.1 percentage points to 28.7%. The main reasons included: (1) the increase in profit before tax in 2007 results in a corresponding growth of income tax expense in the period; (2) the deferred income tax assets were recognized for the allowance for impairment losses which are in excess of the standard deduction allowable but may be deductible for tax purpose in future years when the bad debts are written off; (3) the surge of interest income from treasury bonds pushing up the tax-free earnings, and thereby reduced the effective tax rate; and (4) pursuant to the Notice of MOF and State Administration of Taxation on Pre-Tax Deduction of Taxable Salary of ICBC (C.SH. [2007] No.44), the Bank was allowed to fully deduct the staff costs in 2007 under the "performance-linked salary" policy.

Please see "Note 16 to the Financial Statements: Income Tax Expense" for reconciliation of income tax expenses under statutory tax rate and the actual income tax expense.

Segment Information

The Bank's principal business segments are corporate banking, personal banking and treasury operations. The Bank uses the Performance Value Management System (PVMS) to evaluate the performance of each business segment.

SUMMARY BUSINESS SEGMENT INFORMATION

In RMB millions, except for percentages

	2007		2006	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Corporate banking business	126,237	49.3	92,457	50.9
Personal banking business	86,174	33.7	62,257	34.2
Treasury operations	41,432	16.2	25,375	14.0
Others	2,186	0.8	1,549	0.9
Total operating income	**256,029**	**100.0**	**181,638**	**100.0**

The Bank implemented a change in the operational model and way of development, improved the income mix, and kept sustained growth of earnings. Operating income reached RMB256,029 million in 2007, representing an increase of 41.0%. The operating income from each business segment also recorded fast growth. Operating income of corporate banking segment increased by 36.5% to RMB126,237 million, mainly due to the steady growth of interest income from corporate loans (included discounted bills) and the fast growing fee and commission income in vigorous development of corporate intermediary businesses. Operating income of personal banking segment rose by 38.4% to RMB86,174 million, mainly due to the rapid increase in personal loans resulting from the Bank accelerating the development of credit business on consumption (mainly consisted of the personal housing mortgage) and the sharp increase of net fee and commission income in personal business driven by the expansion of wealth management services business. Operating income of treasury operation increased by 63.3% to RMB41,432 million, contributed to 16.2% of total operating income, an increase of 2.2 percentage points. This was mainly because that the Bank realized fast growth of interest income in the treasury operations through extension of investment scale and optimization of portfolio and maturity structure in response to the rising interest rate. Also, the booming capital market drove up the growth of deposits from banks and other financial institutions with a low interest cost. Please see "Discussion and Analysis: Business Overview" for details.

SUMMARY GEOGRAPHICAL SEGMENT INFORMATION

In RMB millions, except for percentages

Item	2007 Amount	2007 Percentage (%)	2006 Amount	2006 Percentage (%)
Head Office	29,287	11.4	12,626	7.0
Yangtze River Delta	58,928	23.0	41,988	23.1
Pearl River Delta	36,186	14.1	24,823	13.7
Bohai Rim	46,088	18.0	37,013	20.4
Central China	30,272	11.8	24,011	13.2
Northeast China	12,713	5.0	10,054	5.5
Western China	36,515	14.3	26,899	14.8
Overseas and others	6,040	2.4	4,224	2.3
Total operating income	**256,029**	**100.0**	**181,638**	**100.0**

Note: Please see "Note 47 to the Financial Statements: Segment Information" for classification of geographic regions.

Relying on the rich financial resources and highly open market in eastern China, the Bank took the lead to develop and promote business in eastern China. The operating income of Yangtze River Delta, Pearl River Delta and Bohai Rim amounted to RMB141,202 million in aggregate and contributed to 55.2% of total operating income; while operating income of the three regions reported a growth of 40.3%, 45.8% and 24.5%, respectively. To seize the opportunities of central China development and revitalization of northeast China, the Bank upgraded the business in these two regions and achieved a growth of 26.1% and 26.4% in operating income, respectively. Besides, the operating income in western China grew by 35.7%, as a result, the Bank properly designed the business strategies to fit into the distinctive economic development level in the western China. In 2007, operating income of the Head Office showed a growth of RMB16,661 million or 132.0%, which was mainly due to the increase in interest income from investment in securities.

Analysis on Balance Sheet Items

In 2007, the Bank earnestly implemented macro-economic control policies, proactively adjusted the structure of asset and liability businesses in consideration of the rise in interest rate, and continued to push ahead the operational transformation. The Bank strengthened the deployment of assets, adhered to prudently sound strategy of credit development, improved various credit policies and loan orientation, maintained modest growth of loans, and enhanced the quality of loans. The Bank also continued to promote the development of non-credit asset businesses, adjusted the investment strategy appropriately, and improved the investment structure. In addition, the Bank took the opportunity of capital market development, and adopted several measures to improve the structure of liabilities, achieved steady growth of low-cost due to customers, led customers to adjust the allocation of financial assets, expanded the sources of low-cost funds such as deposits from banks and other financial institutions, and promoted interactive and coordinated development of various liabilities businesses, thus ensuring the stability and continuous growth of funding sources.

Assets Deployment

At the end of 2007, total assets amounted to RMB8,683,712 million, representing an increase of RMB1,174,961 million or 15.6% over the previous year. Among the assets, loans and advances to customers (collectively referred to as "loans") increased by RMB442,058 million or 12.2%; net investment in securities increased by RMB246,530 million or 8.6%. In terms of asset structure, net loans accounted for 45.6% of the total assets, dropped by 1.5 percentage points, net investment in securities accounted for 35.8%, decreased by 2.3 percentage points, and cash and balances with central banks accounted for 13.1%, increased by 3.7 percentage points.

ASSETS DEPLOYMENT

In RMB millions, except for percentages

Item	At 31 December 2007		At 31 December 2006	
	Amount	Percentage (%)	Amount	Percentage (%)
Total loans and advances to customers	4,073,229	—	3,631,171	—
Less: Allowance for impairment losses	115,687	—	97,193	—
Loans and advances to customers, net	3,957,542	45.6	3,533,978	47.1
Investment in securities, net	3,107,328	35.8	2,860,798	38.1
Of which: receivables	1,211,767	14.0	1,106,163	14.7
Cash and balances with central banks	1,142,346	13.1	703,657	9.4
Due from banks and other financial institutions, net	199,758	2.3	206,506	2.7
Reverse repurchase agreements	75,880	0.9	39,218	0.5
Others	200,858	2.3	164,594	2.2
Total assets	**8,683,712**	**100.0**	**7,508,751**	**100.0**

Loans

In 2007, the Bank adhered to the steady operation principle in credit business and achieved a moderate growth and more reasonable distribution of loans. At the end of 2007, loans of the Bank were RMB4,073,229 million, representing an increase of RMB442,058 million or 12.2%. Domestic loans were RMB3,919,209 million, representing an increase of RMB400,055 million or 11.4%, and the growth was noticeably lower than the average growth rate of loans granted by domestic financial institutions, which is 16.4%; overseas loans were RMB154,020 million, representing an increase of RMB42,003 million or 37.5%; RMB loans increased by RMB350,063 million or 10.3% to RMB3,745,169 million and foreign currency loans increased by RMB91,995 million or 39.0% to RMB328,060 million.

DISTRIBUTION OF LOANS BY BUSINESS LINE

In RMB millions, except for percentages

Item	At 31 December 2007 Amount	At 31 December 2007 Percentage (%)	At 31 December 2006 Amount	At 31 December 2006 Percentage (%)
Loans of domestic operations	**3,919,209**	**96.2**	**3,519,154**	**96.9**
Corporate loans	2,914,993	71.6	2,530,732	69.7
Discounted bills	252,103	6.2	412,313	11.3
Personal loans	752,113	18.4	576,109	15.9
Loans of overseas operations	**154,020**	**3.8**	**112,017**	**3.1**
Total	**4,073,229**	**100.0**	**3,631,171**	**100.0**

DISTRIBUTION OF CORPORATE LOANS BY CONTRACTUAL MATURITY

In RMB millions, except for percentages

Item	At 31 December 2007 Amount	At 31 December 2007 Percentage (%)	At 31 December 2006 Amount	At 31 December 2006 Percentage (%)
Short-term corporate loans	1,126,851	38.7	991,775	39.2
Medium to long-term corporate loans	1,788,142	61.3	1,538,957	60.8
Total	**2,914,993**	**100.0**	**2,530,732**	**100.0**

DISTRIBUTION OF CORPORATE LOANS BY PRODUCT TYPE

In RMB millions, except for percentages

Item	At 31 December 2007 Amount	At 31 December 2007 Percentage (%)	At 31 December 2006 Amount	At 31 December 2006 Percentage (%)
Working capital loans	1,201,582	41.2	1,064,668	42.1
Project loans	1,414,000	48.5	1,240,936	49.0
Property development loans	299,411	10.3	225,128	8.9
Total	**2,914,993**	**100.0**	**2,530,732**	**100.0**

The balance of domestic corporate loans increased by RMB384,261 million or 15.2%. In terms of contractual maturity, short-term corporate loans increased by RMB135,076 million or 13.6% and medium to long-term corporate loans increased by RMB249,185 million or 16.2%. In terms of product type, working capital loans increased by RMB136,914 million or 12.9%, which is mainly due to the growth in loans to small enterprises and trade finance; project loans increased by RMB173,064 million or 13.9%, which is mainly due to the increase in high-quality medium to long-term project loans in fundamental and infrastructure industries, property development loans increased by RMB74,283 million or 33.0%, which is mainly due to the increase in residential housing development loans.

The balance of discounted bills decreased by RMB160,210 million or 38.9%. The decrease is mainly because the Bank adjusted the structure of credit products, including discounted bills by accelerating the turnover of bill assets in response to the environment of increasing interest rate, so as to balance the exposure to the various credit products and achieve the profit target.

DISTRIBUTION OF PERSONAL LOANS BY PRODUCT LINE

In RMB millions, except for percentages

Item	At 31 December 2007		At 31 December 2006	
	Amount	Percentage (%)	Amount	Percentage (%)
Personal housing loans	536,331	71.3	410,227	71.2
Personal consumption loans	91,066	12.1	78,410	13.6
Personal business loans	116,475	15.5	82,306	14.3
Bank card overdrafts	8,241	1.1	5,166	0.9
Total	**752,113**	**100.0**	**576,109**	**100.0**

The balance of personal loans increased by RMB176,004 million or 30.6%, which is mainly due to the rapid growth in personal housing loans and personal business loans as a result of the Bank's efforts in marketing and expanding the product line of personal loans. Among the personal loans, personal housing loans increased by RMB126,104 million or 30.7%; personal business loans increased by RMB34,169 million or 41.5%; and bank card overdrafts increased by RMB3,075 million or 59.5%, which is due to the increase in the issuance and consumption volume of credit cards.

DISTRIBUTION OF LOANS BY GEOGRAPHIC REGION

In RMB millions, except for percentages

Item	At 31 December 2007		At 31 December 2006	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	172,490	4.2	259,289	7.1
Yangtze River Delta	1,040,412	25.6	907,125	25.0
Pearl River Delta	611,726	15.0	513,514	14.1
Bohai Rim	730,965	18.0	640,213	17.6
Central China	526,306	12.9	467,142	12.9
Northeastern China	224,675	5.5	198,427	5.5
Western China	612,635	15.0	533,444	14.7
Overseas operations	154,020	3.8	112,017	3.1
Total	**4,073,229**	**100.0**	**3,631,171**	**100.0**

The Bank continued to improve the geographical structure of credit assets, and promote harmonious development in regions. Loans granted by the Head Office decreased by RMB86,799 million or 33.5%, mainly attributable to the decrease in discounted bills. The Bank gave full support to the development of credit business in Yangtze River Delta, Pearl River Delta and Bohai Rim. The balance of loans in these regions increased by 14.7%, 19.1% and 14.2%, respectively, which accounted for 72.9% in aggregate of the total increase in loans. The Bank also focused on the development of credit business in Western China, Northeastern China and Central China, which increased by 14.8%, 13.2% and 12.7%, respectively. Loans of overseas operations also increased by 37.5%.

DISTRIBUTION OF DOMESTIC CORPORATE LOANS BY INDUSTRY

In RMB millions, except for percentages

Item	At 31 December 2007 Amount	At 31 December 2007 Percentage (%)	At 31 December 2006 Amount	At 31 December 2006 Percentage (%)
Manufacturing	738,121	25.3	672,589	26.6
Chemicals	121,243	4.1	112,827	4.5
Machinery	95,709	3.3	81,798	3.2
Iron and steel	84,357	2.9	70,339	2.8
Textiles and apparels	79,112	2.7	68,363	2.7
Metal processing	77,808	2.7	62,583	2.5
Electronics	43,181	1.5	38,710	1.5
Automobile	42,496	1.4	39,202	1.5
Petroleum processing	35,761	1.2	44,744	1.8
Cement	30,963	1.1	30,202	1.2
Others	127,491	4.4	123,821	4.9
Transportation and logistics	602,103	20.7	525,048	20.7
Power generation and supply	404,873	13.9	343,038	13.6
Property development	303,984	10.4	230,064	9.1
Water, environment and public utility management	230,156	7.9	206,781	8.2
Retail, wholesale and catering(1)	186,988	6.4	147,148	5.8
Leasing and commercial services	159,877	5.5	107,994	4.3
Science, education, culture and sanitation(2)	69,742	2.4	72,281	2.8
Construction	52,639	1.8	49,957	2.0
Others(3)	166,510	5.7	175,832	6.9
Total	**2,914,993**	**100.0**	**2,530,732**	**100.0**

Notes: The Bank adjusts the standards for industrial classification with a view to better reflect the characteristics of industrial distribution and risk status of domestic corporate loans. The "leasing and commercial services" is disclosed separately and no longer included in "retail, wholesale and catering"; "water, environment and of public utility management" is disclosed separately and no longer included in "others"; "resident services and other services" and "public administration and social groups" are included in "others".

(1) Includes wholesale, retail, hotels and catering.

(2) Includes scientific research, technical services and geological exploration, education, health care, social security and social welfare, culture, sports and entertainment.

(3) Includes agriculture, forestry, animal husbandry and fishery, mining, information transmission, computer services and software, financial services, international organisations, resident services and other services, public administration and social groups.

In 2007, the Bank strengthened the implementation of credit policies, proactively supported the growth of loans to energy, transportation and other major fundamental and infrastructure industries, steadily developed property development loans, selectively gave support to manufacturing, logistics, emerging services and cultural industries, and effectively controlled the growth of loans to high energy-consuming, high pollution and resource-intensive industries, thus continuously improved the industrial distribution of loans.

Among the incremental structure, loans to the four industries of transportation and logistics, property development, manufacturing, and power generation and supplies grew considerably. The new loans in these industries accounted for 72.4% of total increment in domestic corporate loans. Loans to the industry of transportation and logistics increased by RMB77,055 million or 14.7%, which is mainly due to the increase in loans to highway, transportation and other related industries which were encouraged by the credit policy of the Bank. Loans to the property development industry increased by RMB73,920 million or 32.1%, which is mainly due to the efforts of the Bank in marketing and further exploring high-quality customers. Loans to the manufacturing industry increased by RMB65,532 million or 9.7%, which is mainly due to the increase in loans to small enterprises engaged in machinery, textile and apparels, metal processing and iron and steel. Loans to power generation and supply industry increased by RMB61,835 million or 18.0%, which is mainly due to the increase in loans to targeted eligible customers in line with our credit policy towards the power industry. Loans to petroleum processing industry decreased by RMB8,983 million or 20.1%, which is mainly because the enterprises improved their ability in direct financing to replace bank loan financing. Loans to science, education, culture and sanitation decreased by RMB2,539 million or 3.5%, which is mainly due to the slow down in the expansion among schools and the Bank's amendment to its credit policy to education industry.

In terms of the structure of our loan balance, the loans are mainly concentrated on industries of manufacturing, transportation and logistics, power generation and supply, and property development. Loan balance for these four industries accounted for 70.3% of all domestic corporate loans of the Bank.

DISTRIBUTION OF LOANS BY CURRENCY

At the end of 2007, RMB loans reached RMB3,745,169 million, accounting for 91.9% of the total loan balance and representing an increase of RMB350,063 million or 10.3%. Foreign currency loans were equivalent to RMB328,060 million, accounting for 8.1% of the total loans and representing an increase of RMB91,995 million or 39.0%. Of which, USD loans were equivalent to RMB210,087 million, HKD loans were equivalent to RMB92,349 million and other foreign currency loans were equivalent to RMB25,624 million. The rapid growth of foreign currency loans was primarily due to the Bank's focus on developing trade finance business and the increasing demand from enterprises on foreign currency loans as a result of the rapid growth of exports and imports and the expected appreciation of RMB.

For further analysis on loans and quality of loans of the Bank, please refer to "Risk Management-Credit Risk".

Investment

At the end of 2007, the net balance of investment in securities amounted to RMB3,107,328 million, an increase of RMB246,530 million or 8.6% over the end of previous year.

INVESTMENT

In RMB millions, except for percentages

Item	At 31 December 2007		At 31 December 2006	
	Amount	Percentage (%)	Amount	Percentage (%)
Investment in securities not related to restructuring	2,074,094	66.7	1,796,157	62.8
Investment in securities related to restructuring(1)	1,026,767	33.1	1,059,164	37.0
Equity instruments	6,467	0.2	5,477	0.2
Total	**3,107,328**	**100.0**	**2,860,798**	**100.0**

Note: (1) Including Huarong bonds, special government bonds, MOF receivable and special PBOC bills. For details, please refer to "Note 27 to Financial Statement: Financial Investment".

At the end of 2007, the balance of investment in securities not related to restructuring amounted to RMB2,074,094 million, an increase of RMB277,937 million or 15.5% over the end of 2006 and an increase of 3.9 percentage points in terms of proportion in total investment in securities. The growth was mainly attributable to the significant increase in deposits and other liabilities, which resulted in an increase of funds available for securities investment. The balance of investment in securities related to restructuring amounted to RMB1,026,767 million, a decrease of RMB32,397 million, which was due to the principal repayment of MOF receivable during the reporting period. Please refer to "Note 27 to the Financial Statements: Financial Investments" for details.

DISTRIBUTION OF INVESTMENT IN SECURITIES BY HOLDING PURPOSES

In RMB millions, except for percentages

	At 31 December 2007		At 31 December 2006	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Investments at fair value through profit or loss[(1)]	34,321	1.1	21,156	0.7
Available-for-sale investments	531,155	17.1	504,542	17.6
Held-to-maturity investments	1,330,085	42.8	1,228,937	43.0
Receivables	1,211,767	39.0	1,106,163	38.7
Total	**3,107,328**	**100.0**	**2,860,798**	**100.0**

Note: (1) Including financial assets held for trading and financial assets designated at fair value through profit or loss.

DISTRIBUTION OF INVESTMENT IN SECURITIES NOT RELATED TO RESTRUCTURING BY ISSUERS

In RMB millions, except for percentages

	At 31 December 2007		At 31 December 2006	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Government bonds	431,917	20.8	348,445	19.4
Policy bank bonds	554,311	26.7	428,111	23.8
Central bank bills	783,929	37.8	761,548	42.4
Other bonds	303,937	14.7	258,053	14.4
Total	**2,074,094**	**100.0**	**1,796,157**	**100.0**

DISTRIBUTION OF INVESTMENT IN SECURITIES NOT RELATED TO RESTRUCTURING BY REMAINING MATURITY

In RMB millions, except for percentages

	At 31 December 2007		At 31 December 2006	
Remaining Maturity	Amount	Percentage (%)	Amount	Percentage (%)
Less than 3 months	208,093	10.0	273,246	15.2
3–12 months	384,153	18.5	595,070	33.1
1–5 years	967,973	46.7	536,383	29.9
Over 5 years	513,875	24.8	391,458	21.8
Total	**2,074,094**	**100.0**	**1,796,157**	**100.0**

DISTRIBUTION OF INVESTMENT IN SECURITIES NOT RELATED TO RESTRUCTURING BY CURRENCY

In RMB millions, except for percentages

	At 31 December 2007		At 31 December 2006	
Item	Amount	Percentage (%)	Amount	Percentage (%)
RMB	1,863,203	89.9	1,577,234	87.8
USD	193,584	9.3	199,755	11.1
Other foreign currencies	17,307	0.8	19,168	1.1
Total	**2,074,094**	**100.0**	**1,796,157**	**100.0**

At the end of 2007, the Group held US sub-prime residential mortgage-backed securities of USD1,226 million in terms of nominal value, all of which were first-lien mortgage-backed securities with credit rating of AA[1] category and above. The Group has made prudent revaluation and stringent impairment test on such securities, and made allowance for impairment losses of USD400 million accumulatively (including USD343 million for the fourth quarter) based on fair value as at year end and adjusted by the consideration of the changes in market situation on a forward looking basis. The accumulated provisions exceed the amount of unrealized fair value loss, with the provision coverage (provisions/unrealized fair value loss, same below) and the provision ratio (provisions/nominal value, same below) standing at 112% and 33%, respectively. The credit rating of bonds and relevant provision are illustrated in the table below.

Item		Credit Rating			Total
		AAA	AA+ and AA	AA–	
Nominal value	Amount (USD100 million)	2.28	9.34	0.64	**12.26**
	Proportion (%)	18.60	76.18	5.22	**100**
Provisions	Amount (USD100 million)	0.29	3.36	0.35	**4.00**
	Proportion (%)	7.25	84.00	8.75	**100**
Unrealised fair value loss as at 31 December (USD100 million)		0.29	2.98	0.30	**3.57**
Provision coverage (%)		100	113	117	**112**
Provision ratio (%)		13	36	55	**33**

The Group does not hold any Collateralized Debt Obligation (CDO) relating to US sub-prime mortgage.

At the end of 2007, the Group held structured investment vehicles (SIVs) of USD55 million in nominal value, of which, the parent company held USD15 million with USD5 million allowance for impairment loss according to the valuation result, and ICBC (Asia) held USD40 million with USD30 million allowance for impairment loss according to the valuation result. Please refer to the table below for details.

Item	Nominal Value (USD100 million)	Provisions (USD100 million)	Provision Coverage (%)	Provision Ratio (%)
Parent Company	0.15	0.05	100	33.33
ICBC (Asia)	0.40	0.30	100	75.00
Total	**0.55**	**0.35**	**100**	**63.64**

Allowance for impairment loss of the above assets made by the Group has fully reflected the impact of the observable market situation as of the end of the reporting period. Considering the uncertain market situation, the Group will continue to closely monitor any further market development on an ongoing basis.

Liabilities

At the end of 2007, the balance of the total liabilities amounted to RMB8,140,036 million, an increase of RMB1,102,286 million or 15.7%. Of which, amounts due to customers and due to banks and other financial institutions together reached RMB7,626,022 million, an increase of RMB932,138 million or 13.9% and accounted for 84.6% of the increase of the total liabilities.

1 Refer to rating provided by Standard & Poor's or other rating agencies, incluides AA+, AA and AA–.

LIABILITIES

In RMB millions, except for percentages

Item	At 31 December 2007 Amount	At 31 December 2007 Percentage (%)	At 31 December 2006 Amount	At 31 December 2006 Percentage (%)
Due to customers	6,898,413	84.7	6,326,390	89.9
Due to banks and other financial institutions	805,174	9.9	400,318	5.7
Repurchase agreements	193,508	2.4	48,610	0.7
Certificates of deposit	562	0.0	1,707	0.0
Subordinated bonds	35,000	0.4	35,000	0.5
Other liabilities	207,379	2.6	225,725	3.2
Total liabilities	**8,140,036**	**100.0**	**7,037,750**	**100.0**

Due to Customers

At the end of 2007, the balance of due to customers reached RMB6,898,413 million, an increase of RMB572,023 million or 9.0%. Due to customers remained a major source of funding and accounted for 84.7% of total liabilities. In terms of the structure of customer deposits, the proportion of corporate deposits increased by 4.5 percentage points, while that of personal deposits decreased by 5.1 percentage points. In terms of the maturity structure of customer deposits, the proportion of demand deposits increased by 2.6 percentage points while that of time deposits decreased by 3.2 percentage points.

Corporate deposits increased by RMB569,205 million or 20.1%. Of which, corporate demand deposits increased by RMB388,093 million or 19.7%, and corporate time deposits increased by RMB181,112 million or 21.1%. The growth was mainly due to: (1) sufficient cash flow of enterprises; (2) increase in institutional deposits brought by the growth of fiscal revenue of government; and (3) rise of benchmark interest rate of RMB deposits for several times.

Personal deposits decreased by RMB50,351 million or 1.5%, of which, personal demand deposits increased by RMB75,657 million or 6.9%, and personal time deposits dropped by RMB126,008 million or 5.7%. The decrease in personal deposits was primarily due to: (1) the Bank proactively introduced the concept of wealth management to the customers, which raised their awareness and resulted in proper allocation of personal financial assets. In 2007, revenue on sales of personal wealth management products amounted to RMB1,118.7 billion, representing an increase of 182.4% over the previous year and the structure of personal financial assets of the Bank's personal customers was further optimized (Please refer to "Discussion and Analysis — Business Overview" for details on the wealth management products and the sales); and (2) the diversion of personal deposits to the capital markets, which was very active last year.

DISTRIBUTION OF DUE TO CUSTOMERS BY BUSINESS LINE

In RMB millions, except for percentages

Item	At 31 December 2007		At 31 December 2006	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate deposits				
Time	1,039,853	15.1	858,741	13.6
Demand	2,362,830	34.2	1,974,737	31.2
Sub-total	3,402,683	49.3	2,833,478	44.8
Personal deposits				
Time	2,069,506	30.0	2,195,514	34.7
Demand	1,174,568	17.0	1,098,911	17.4
Sub-total	3,244,074	47.0	3,294,425	52.1
Overseas	136,707	2.0	104,808	1.7
Others(1)	114,949	1.7	93,679	1.4
Total	**6,898,413**	**100.0**	**6,326,390**	**100.0**

Note: (1) Mainly includes outward remittance and remittance payables.

DISTRIBUTION OF DUE TO CUSTOMERS GEOGRAPHIC REGION

In RMB millions, except for percentages

Item	At 31 December 2007		At 31 December 2006	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	141,033	2.0	111,411	1.8
Yangtze River Delta	1,422,829	20.6	1,274,078	20.1
Pearl River Delta	902,871	13.1	833,540	13.2
Bohai Rim	1,798,664	26.1	1,676,173	26.5
Central China	947,394	13.7	877,459	13.9
Northeastern China	516,389	7.5	496,189	7.8
Western China	1,032,526	15.0	952,732	15.0
Overseas	136,707	2.0	104,808	1.7
Total	**6,898,413**	**100.0**	**6,326,390**	**100.0**

DISTRIBUTION OF CUSTOMER DEPOSITS BY REMAINING MATURITY

In RMB millions, except for percentages

Remaining Maturity	At 31 December 2007		At 31 December 2006	
	Amount	Percentage (%)	Amount	Percentage (%)
Demand(1)	3,817,479	55.3	3,190,873	50.5
Less than 3 months	1,098,218	15.9	1,102,816	17.4
3–12 months	1,506,322	21.8	1,453,971	23.0
1–5 years	472,861	6.9	577,387	9.1
Over 5 years	3,533	0.1	1,343	0.0
Total	**6,898,413**	**100.0**	**6,326,390**	**100.0**

Note: (1) Includes deposits payable on demand.

At the end of 2007, the balance of RMB deposits reached RMB6,626,810 million, representing an increased of RMB533,143 million or 8.7%, and accounted for 96.1% of the total due to customer balance. Foreign currency deposits were equivalent to RMB271,603 million, an increase of RMB38,880 million, of which USD deposits were equivalent to RMB140,470 million, representing an increase of RMB5,830 million, HKD deposits were equivalent to RMB105,361 million, representing an increase of RMB25,625 million and other foreign currency deposits were equivalent to RMB25,772 million.

Due to Banks and Other Financial Institutions

At the end of 2007, the balance of due to banks and other financial institutions reached RMB805,174 million, an increase of RMB404,856 million or 101.1%, representing an increase from 5.7% to 9.9% of the total liabilities. It has become the major source of the Bank's funding and the significant increase was due to the active capital market and the expansion of third-party depository business and fiduciary business of the Bank.

Shareholders' Equity

At the end of 2007, shareholders' equity was RMB543,676 million in aggregate, representing an increase of RMB72,675 million or 15.4%, of which equity attributable to equity holders of the parent company was RMB538,371 million, representing an increase of RMB71,907 million or 15.4%, which was due to the significant increase in retained profits.

SHAREHOLDERS' EQUITY

In RMB millions

Item	At 31 December 2007	At 31 December 2006
Share capital	334,019	334,019
Reserves	158,204	126,286
Retained profits	46,148	6,159
Equity attributable to equity holders of the parent company	**538,371**	**466,464**
Minority interests	**5,305**	**4,537**
Total equity	**543,676**	**471,001**

Other Financial Information

Movement of Financial Instruments Measured at Fair Value and the Effect on Profit or Loss

MOVEMENT OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

In RMB millions, except for percentages

Item	Balance at beginning of the year	Balance at end of the year	Changes in current year	Effects on profit for the year
Financial assets designated at fair value through profit or loss	21,156	34,321	13,165	(37)
Financial liabilities designated at fair value through profit or loss	32,731	15,590	(17,141)	(183)
Available-for-sale financial assets	500,433	528,135	27,702	—
Derivative financial assets	10,539	22,769	12,230	12,230
Derivative financial liabilities	2,613	7,127	4,514	(4,514)
Total	**567,472**	**607,942**	**40,470**	**7,496**

For financial instruments quoted in an active market and measured at fair value, the Bank establishes fair value according to the quoted market price on the valuation day. If the market for a financial instrument is inactive, the Bank establishes fair value by using valuation technique. Valuation techniques include using the latest market transactions between knowledgeable, willing parties; if available, reference to the current fair value of another instrument that is substantially the same; discounted cash flow models and option pricing models. The details are as follows:

1. The fair value of debt securities denominated in local and foreign currencies is mainly established according to the available market price.
2. For local currency swaps, the swap interest rate curve is employed to estimate future cash flow and establish fair value.
3. The fair value of foreign exchange spot, forward and swap transactions is established based on the spot exchange rate and forward premium/discount quotation at the date of valuation.
4. The structured derivatives are valuated based on quotes from counterparties.
5. Huijin option is valuated by using the Garman Kohlhagen Option model. The parameters used for the valuation include relevant market interest rates of RMB and USD, the spot exchange rates of RMB against USD published by PBOC, and average historical exchange rate volatility.

Reconciliation Differences between the Financial Statements Prepared under CASs and Those under IFRSs

For the detailed reconciliation of differences between the financial statements prepared under CASs and that under IFRSs, please refer to "Unaudited Supplementary Financial Information — (a) Differences between the financial statements prepared under IFRSs and those prepared in accordance with CASs promulgated by MOF."

BUSINESS OVERVIEW

Corporate Banking

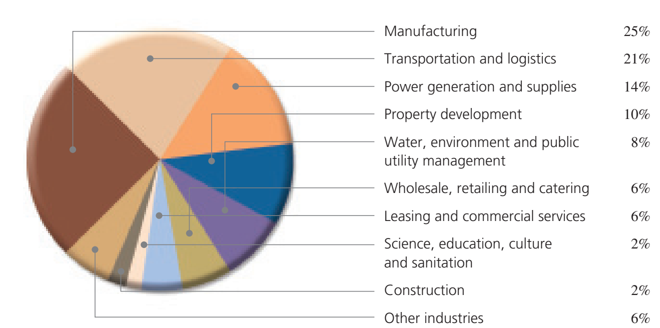
In 2007, the Bank increased the pace of its operational transformation, and reinforced its position as the largest bank in China in terms of corporate banking. With steady development of its credit business, the Bank maintained its position as the largest bank involved in credit business in China. It implemented comprehensive marketing and sophisticated management methods, and promoted the transition into a sophisticated and intensive mode of corporate customer marketing with a view to enhancing its marketing management standards and service capability. With its business innovation, the Bank was able to meet the financial service needs of its customers, and strengthened its ability to respond swiftly to customers' needs. The Bank also established ICBC Leasing to further enhance its ability to provide diversified financial products and services to customers. At the end of 2007, the Bank further expanded its customer base, with 2.72 million corporate banking customers (including 59,000 corporate loan customers), which increased by 310,000 year-on-year.

Corporate Deposits and Loans

Following the strategy of steady growth of corporate loan business, the Bank continuously increased extension of credit in key basic industries, key infrastructure areas and leading industries, and selectively supported high-quality customers from the modern manufacturing, logistics, services and cultural industries. By actively promoting its "green credit" strategy, the Bank increased support for the environmental protection industry and technical innovation for energy saving and reduction of pollution. The Bank strictly controlled the growth of loans to energy-consuming, high-pollution and resource-intensive enterprises, raised the customer entry criteria, gradually withdrew from high risk customers, and accelerated the adjustment of the structure of its customer base. Moreover, the Bank continued to give priority to key geographical regions such as Yangtze River Delta, Pearl River Delta and Bohai Rim in allocating its loans, and at the same time kept an eye on the redevelopment of the old industrial bases in Northeast China, the development of the western region and the rise of the central region and prepared for the cultivation and development of markets with strategic development potential. The Bank also made great efforts to develop trade finance and small business credits and enriched its product line to meet the financing needs of different customers. At the end of 2007, the balance of domestic corporate loans reached RMB2,914,993 million, up by RMB384,261 million, or 15.2%, over that of the previous year.

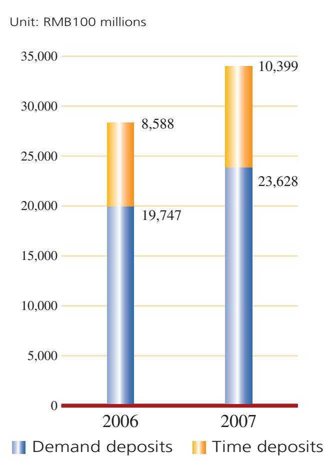
Grasping the opportunity of rapid growth of the national economy and fiscal revenue and healthy enterprise cash flow, the Bank reinforced its marketing efforts and took deposits from enterprises and government agencies, thereby stimulating the rapid growth of corporate deposits. At the end of 2007, the balance of domestic corporate deposits reached RMB3,402,683 million, an increase of RMB569,205 million or 20.1% year-on-year.

Balance of Corporate Loans



Note: domestic operations data

Growth of Corporate Deposits



Note: domestic operations data

Small and Medium Enterprise Business

Based on the market segmentation of small business customers, the financial environment and business management capability of different branch offices, the Bank adopted a differentiated and progressive policy on small business lending and customer entry for branch offices. It intensified innovation in financial products, improved the interactive marketing mechanism for financial products, and provided a full spectrum of financial services for small and medium enterprises, including financing, settlement, wealth management, investment banking consultation, e-banking and bank card business. With an emphasis on brand building, the Bank launched "Caizhi Financing", a financing brand for small and medium businesses, with a view to expanding and improving its social image and influence in the small and medium business market, and better meeting the financing needs of small and medium enterprises. At the end of 2007, the Bank had 44,963 loan customers in small domestic business sectors, representing a year-on-year increase of 23.3%.

Institutional Banking

In 2007, the Bank quickened the pace of innovation and improvement of institutional banking, and achieved improvement in both business development quality and speed. It launched bank insurance business innovations, established agency cooperation with 28 domestic insurers, and strengthened the OTC and online bank insurance marketing. The scale of its bank insurance agency business continued to lead the market. The Bank also actively developed bank-securities and bank-futures business, launched new products such as "Bank-Securities Express", and optimized a comprehensive platform for cooperative bank-securities services. In addition, the Bank established cooperation with 98 securities companies on third-party depository services, promoted centralized bank-futures account transfer business, and established an interactive platform between banks and futures brokerage companies to provide convenient fund settlement for customers' futures transactions. As the stock index futures are to be launched, the Bank established a financial futures settlement center to actively participate in the financial futures business. Moreover, the Bank strengthened domestic inter-bank marketing and services, and broadened the network of domestic correspondent banks. The number of domestic correspondent banks increased to 73. The Bank also successfully won the bid for two services i.e. direct and authorized payment of the central treasury, and provided the agency service of centralized payment of salaries to civil servants and retirees of entities under the central government and retirees of administrative institutions. It became the first bank to provide commercial bank card services for central budget units, and acted as the agent bank designated by the State Administration of Tax for the collection of vehicle purchase tax.

Bill Business

In 2007, bill financing business played an important role in the Bank's credit structure adjustment and asset-liability portfolio management, and the Bank became increasingly competitive in the bill financing market. A breakthrough was achieved in the innovation of the bill business with the establishment of an interest rate determination mechanism under which the pricing of bill discount, rediscount and repo business was linked to Shibor. This was a significant change in the bill financing pricing mechanism from fixed interest rate to floating interest rate and made the Bank the first commercial bank that takes Shibor as the benchmark for pricing in bill financing. At the end of 2007, the Bank continued to lead the industry in the market share of the bill discount balance market.

Settlement and Cash Management

The Bank developed a full spectrum of settlement markets. While consolidating the competitive advantages of traditional settlement products, the Bank increased value-added services and enhanced the convenience, efficiency and value added to settlement and payment. The Bank put into operation the system of centralized management of legal entity bank settlement accounts, optimized the service process for corporate accounts, and improved its account management. As a result of the Bank's greater efforts in marketing, the number of corporate settlement accounts increased by approximately 420,000 to more than 3.2 million. In 2007, corporate RMB settlement amounted to RMB400 trillion, representing a year-on-year increase of 53.8%.

The Bank enhanced its professional capability for cash management business, and branched out from single centralized fund management to comprehensive wealth management business. The Bank strengthened cash management marketing for high-end customers and provided high value-added services. The Bank also strengthened its cooperation with foreign banks on cash management in order to promote the development of the business worldwide. As of the end of 2007, the Bank had 58,563 cash management customers, representing a year-on-year increase of 27,155 customers or 86.5%. The Bank also won the "Best Cash Management Bank in China" from the magazines "The Asset" and "FinanceAsia" in Hong Kong.

Investment Banking

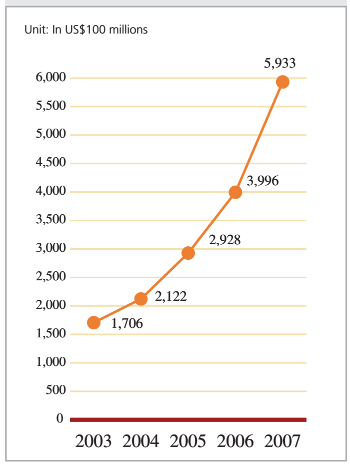
Rapid development of the capital markets creates extensive room for the Bank's development of its investment banking business. With a steady increase in the number of customers which the Bank serves as financial advisor, the Bank continued to expand the business of structured financing, syndicated loan arrangement, restructuring and mergers and acquisitions. As lead manager, the Bank successively arranged the syndicated loans for Hynix-ST Semiconductor and the second-phase project of Tianjin Urban Road Pipeline Network and Supporting Facilities, etc., and achieved interactive development of investment banking and credit business. With the completion of such projects as "Baosteel's acquisition of Ba Yi Iron & Steel", and "VOLVO's acquisition of Shandong Lingong", the Bank further developed its business in mergers and acquisitions. The Bank also actively developed emerging investment banking services, such as asset-backed securitization, private equity and direct investment advisory business. It successfully arranged for the issue of the "2007 Gongyuan Phase I Asset-Backed Securities", a pilot project of credit asset securitization, and undertook such projects as private placement and IPO consulting services for Qunxing Paper and some other enterprises. The Bank's financial bond lead underwriting business covered such products as commercial bank subordinated bonds, commercial bank ordinary financial bonds and finance company financial bonds. In 2007, the Bank underwrote RMB53.6 billion worth of short-term financing notes and RMB39.3 billion worth of financial bonds as lead underwriter. The Bank is the biggest bond underwriter in China in terms of the amount of lead underwriting for bond issues.

Trade Finance and International Settlement

The Bank made great efforts in promoting its trade finance business. It strengthened trade finance product innovation, enriched the product mix, and provided customers with financing and services covering the whole process of domestic and international trade finance. In view of the interaction between trade finance and logistics and capital flow, the Bank established a corresponding credit management mode and further adjusted its trade financing policy. In 2007, domestic branches disbursed an aggregate of RMB223,646 million in trade financing, representing an increase of RMB127,639 million or 132.9%. Of this aggregate amount, the cumulative disbursement of international trade finance reached USD25,485 million, up 156.9%, and the cumulative disbursement of domestic trade finance reached RMB37,488 million, up 102.3%.

In order to help customers save exchange payment costs, the Bank launched the "Caizhi International" services. To meet the needs of corporate group customers for internal centralized operations, the Bank designed a combined operation of international settlement and trade finance through the interface of bank-enterprise system. The Bank also completed the setting up of international settlement documentation business for 16 domestic branches, and started the centralized treatment for international settlement documentation business. The Bank developed and renewed the enterprise online banking system for international settlement, in order to expand its business channels. In 2007, the Bank handled international settlement in an aggregate sum of USD593.3 billion, representing an increase of 48.5%, of which USD422.3 billion was handled by domestic operations, up 45.5%.

Growth of International Settlement Amount



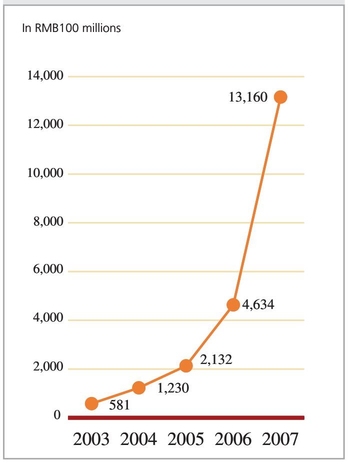
Asset Management

Asset Custody Services

In 2007, the Bank continuously broadened the scope of its asset custody services, with a focus on the custody service for securities investment funds. Its custody services for enterprise annuity funds, insurance assets and social security funds as well as its global custody services grew rapidly, and the overall business showed a trend of accelerated development.

Leveraging the bullish securities market environment, the Bank expanded strategic cooperation with high-quality funds and provided custodian services for 82 securities investment funds, and continued to lead the domestic fund custody market. The number of custody customers of enterprise annuity funds increased rapidly, reinforcing the Bank's reputation in the market. The Bank has formally entered into a custody contract with the National Council for Social Security Fund and became the custodian bank of the national social security fund. The Bank also strengthened cooperation with global custodians, promoted the building of a global custody network, and made great efforts to explore global custody services for Qualified Foreign Institutional Investors ("QFII"), QDII, etc. With greater product innovation, the Bank provided custody services for the first graded innovative closed-end fund and the first QDII stock fund-of-funds company in China. It also made significant progress in insurance assets custody, achieving rapid growth in both the number of customers and scale of business. At the end of 2007, the net asset value under custody reached RMB1,316.0 billion, a year-on-year increase of 184.0%, making the Bank the first custodian bank in China to have net asset value under custody exceeding RMB1 trillion. This led to robust growth of income from custody services. The Bank was awarded the "Best Domestic Custodian in China" by the magazine "The Asset" in Hong Kong and the "Best Sub-Custodian in China" by the magazine "Global Finance" in the United States.

Growth of Assets Under Custody



Enterprise Annuity

In 2007, the Bank became one of the first batch of banks to receive the qualification of legal entity trustee for enterprise annuity funds, and obtained all business qualifications for enterprise annuity fund management. Leveraging the competitive edge from its full range of licenses for enterprise annuity businesses, full-fledged service channels and advanced annuity fund business systems, the Bank actively developed the enterprise annuity market and maintained a leading position in the market. The Bank launched full-scale follow-up marketing and customized services for large customers, and launched standardized enterprise annuity products for small and medium customers. At the end of 2007, the Bank managed 3.477 million individual enterprise annuity accounts, a year-on-year increase of 1.967 million. As custodian, the Bank managed RMB18.78 billion worth of annuity funds, up RMB10.38 billion.

Precious Metals Business

Taking advantage of the booming precious metals market, the Bank strengthened product innovation and marketing, and achieved rapid development in the precious metals business. The Bank launched "Ruyijin", the first bullion brand, which consists of six categories, with weights of 20g, 50g, 100g, 200g, 500g and 1,000g, and more than 50,000 pieces of bullion were sold during the year. Relying on its customer resources and electronic channels, the Bank strived to develop individual bullion transactions accounts and agency business for physical bullion transactions. In 2007, the overall volume of precious metals business reached 288 tons, including 179.8 tons of bullion transactions in individual accounts. The Bank cleared RMB90.7 billion on behalf of Shanghai Gold Exchange and continued to maintain the competitive advantages in bullion clearing agency services.

Corporate Wealth Management

The Bank enhanced its product innovation and explored customers of domestic and foreign currency wealth management so as to sharpen its competitive edge on the wealth management market. It innovated in overseas wealth management, optimized "Zhu Lian Bi He", a wealth management product, and launched such wealth management products as "Wealth Management plus Trust". It researched and developed extremely short-term wealth management products, and enriched wealth management products linked with the capital markets, including Selected Funds and Subscription for New Shares. In 2007, the Bank issued RMB115.2 billion worth of legal entity wealth management products, representing an increase of 175.6%. In a campaign organized by the "Money Weekly" magazine, five wealth management products of the Bank were awarded "the Best Bank Wealth Management Product in China in 2007".

Personal Banking

Following the Bank's development strategy of "building the number one retail bank in China", the Bank upheld the "market-oriented and customer-focused" principle, accelerated business innovation and improved its customer services. The Bank formed a mature personal banking services and products system with the coordinated and rapid development of savings, personal wealth management, fee-based business, personal lending and bank card business. The Bank continued to build personal financial service brands, and continued to increase people's awareness of personal financial service brands such as Elite Club Account, Peony Money Link Card and Well-being Loan. The Bank also strengthened channel building, reengineered business processes, and built a multi-level marketing service network system that combines operating outlets with e-banking. As a result, its sales capability improved remarkably. The Bank put great efforts into developing VIP wealth management centers, reinforced the service and functions of retail sites, and improved every aspect of its customer service. The Bank won the "Best State-owned Retail Bank in China" award from "The Asian Banker", a Singaporean magazine. At the end of 2007, the Bank had 170 million personal banking customers, which included 4.55 million personal loan customers.

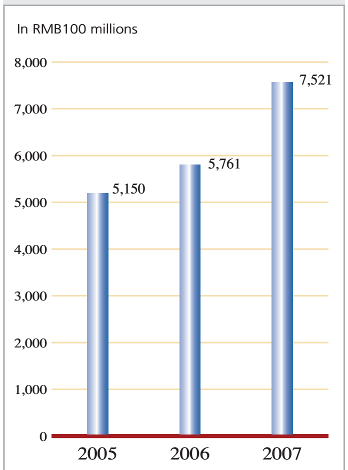
Savings Deposits

In 2007, under booming capital markets and people's enhanced awareness of wealth management, the Bank continued to promote the development of its personal savings deposit business, focusing on the maintenance and development of high-quality customers. In line with the new trends and characteristics of household savings, the Bank sped up the innovation of savings products and instruments, promoted coordinated development of savings deposits and various wealth management products, provided guidance to customers on reasonable allocation of personal financial assets taking into account such factors as risk, return and term, and adjusted the structure of customers' financial assets in the Bank. At the end of 2007, the balance of domestic savings deposits was RMB3,244,074 million, down RMB50,351 million from the end of the previous year. On the other hand, the amount of the Bank's personal comprehensive financial assets including savings, treasury bonds, funds, insurance and bank wealth management products increased markedly.

Personal Loans

The Bank put great efforts into developing its personal loan business in 2007. Focusing on branches in large and medium cities, the Bank strengthened marketing and product innovation, established and improved interactive mechanisms in its operations and utilized the customer relationships created through housing development loans in boosting its personal mortgage business. The Bank also stepped up efforts to market second-hand housing loans and personal housing loans by way of direct sale. The Bank introduced personal credit standardization projects, optimized its marketing force and channels, and improved the market value of the brand of "Well-being Loans". The Bank intensified the promotion of personal mortgage loans and boosted the development of personal consumer loans. At the end of 2007, the balance of domestic personal loans amounted to RMB752,113 million, a year-on-year increase of RMB176,004 million or 30.6%. The Bank held the largest market share in the personal loan market.

Growth of Personal Loans



Note: domestic operations data

Personal Wealth Management

In response to the increasing wealth management demands of customers, the Bank promoted the innovation of wealth management product sales methods and products, deeply explored sales potential, and increased the sales volume of personal wealth management products to hit a new successive peak. In 2007, domestic operations sold RMB1,118.7 billion worth of personal wealth management products, an increase of RMB722.5 billion or 182.4%, over the previous year.

The Bank increased the issuance frequency and scale of wealth management products linked to the capital markets, and successively launched many new share subscription products and fund selection products to satisfy different needs of personal investors. The Bank researched and launched "Oriental Pearl", the first QDII product in China that directly invests in Hong Kong's stock market, and achieved a sales value of RMB4.4 billion, a record high among all QDII products in China. The Bank launched 35 RMB wealth management products and 24 foreign currency wealth management products in 2007 with an aggregate sales value of RMB154.4 billion, an increase of 104.5%, and continued to lead the industry.

The Bank sold as agent various wealth management products of RMB964.3 billion, up RMB643.6 billion or 200.7%. Amongst these products, sales of open-ended funds totaled RMB857.0 billion, up 334.4%. The Bank ranked first in the industry by volume of fund distribution, value of existing funds and number of customers. The Bank also expanded the scope of cooperation on personal insurance products, reinforced adjustments in product structure and innovation in marketing mode, and quickened the pace of incorporating personal insurance products into the "Bank-Insurance Link" system. Premium income from agency sales of bank insurance products stood at RMB57.9 billion, up 26.1%, ranking first in the market. Sales of treasury bonds amounted to RMB49.4 billion, and the Bank continued to lead the industry in terms of market share.

Elite Club Account

In 2007, the Bank upgraded the services of the Elite Club Account, a personal finance brand of the Bank tailored to high and medium-end customers, and created a brand-new high-quality customer service system in six aspects — "dedicated VIP access, exclusive fee preference, expert wealth management service, customized wealth management products, professional account management and special promotion activities". The Bank accelerated the upgrading and renovation of retail sites, and set up 1,112 VIP wealth management centers by the end of 2007. The Bank provided dedicated access and exclusive services for Elite Club Account customers through electronic channels such as the telephone banking 95588 and online banking. The Bank also launched a marketing activity with the theme "Wealth Posthouse" to provide various value-added services to customers, including wealth management courses, wealth management salon and preferential merchants offer. The Bank strengthened business training, and cultivated a team of high-calibre personal customer relations managers. The number of associate financial planners and certified financial planners reached 5,083 and 861 respectively, representing 27.2% and 38.1% of the total number in the industry and ranking first in the domestic banking sector. As of the end of 2007, Elite Club Account customers numbered 3.02 million, representing an increase of 660,000, or 28.0%.

Bank Card Business

The number of bank cards exceeded 210 million as of the end of 2007, an increase of 21.49 million. Income from the bank card business grew by 40.6% to RMB4,537 million.

Credit Card Business

The Bank improved the competitive edge of its credit card business in respect of function, service, brand, customer and network, and boosted the rapid development of such business. The Bank strengthened product innovation, and launched dozens of regional co-brand cards, including Happy "Pig" Card, Peony Sports Card, a new-edition of Peony Traffic Card and Central Budget Unit Commercial Card in order to meet the needs of different customers. The Bank promoted its credit card business in each retail site, and formed a diversified publicity, marketing and services system for its credit card business. The Bank set up VIP customer service centers, broadened credit card services and enhanced service quality via telephone banking and online banking. The Bank also actively selected overseas institutions to issue cards as agencies, with a view to expand its credit card business in overseas markets. The Bank further strengthened cooperation with international card organizations, and launched a co-brand commercial card in conjunction with American Express. As at the end of 2007, the number of credit cards issued by the Bank totaled 23.38 million, representing an increase of 12.91 million. Credit card consumption volume amounted to RMB161.9 billion, up by RMB56.9 billion. The Bank continued to hold a leading position in the market in terms of number and consumption volume of credit cards. The balance of domestic credit card overdraft reached RMB8,241 million, up RMB3,075 million or 59.5%.

Debit Card Business

The Bank has established a personal financial service mode under which debit cards serve as the platform of providing standardized and multi-level services. With the advantages of the Peony Money Link Card which may carry several accounts and multiple functions, the Bank strengthened the integration of marketing channels, identified and developed high-quality customers and provided various value-added services. With the multiple functions of Peony Money Link Card in payment and settlement, customers became attracted to handle their banking transactions off counter, easing the workload of tellers. The Bank also intensified market segmentation, and made great efforts to promote the issuance of the Peony Money Link Card · E era Card to medium-end customers and potential customers. At the end of 2007, the number of debit cards reached 187 million, an increase of 8.58 million, with an annual consumption volume of RMB454.3 billion, up 71.4%.

Item	At 31 December 2007	At 31 December 2006	Growth Rate (%)
Issued bank cards (10,000)	21,012	18,863	11.4
Debit cards	18,674	17,816	4.8
Credit cards	2,338	1,047	123.3
	2007	2006	Growth Rate (%)
Annual consumption volume (RMB100 million)	6,162	3,700	66.5
Average consumption volume per card (RMB)(1)	3,091	2,217	39.4
Transaction clearing of external credit cards (RMB100 million)	78	68	14.7

Note: (1) Average consumption volume per card = Consumption volume /[(Issued bank cards at the beginning of the year + issued bank cards at the end of the year)/2].

Treasury Operations

The Bank regards treasury operations as its strategic focus to promote operational transformation and cultivate future market competitive edge. It accelerated the development of various financial products, broadened its business scope, and enhanced its capability of operating domestic and foreign currency funds in domestic and overseas financial markets.

Money Market Activities

In 2007, along with the increased frequency of IPOs in domestic capital markets, the amount of frozen subscription funds frequently hit new record highs. PBOC successively launched a series of tightening monetary policies in order to effectively reduce the surplus liquidity. The interest rate of the money market became volatile, and hit a new high in recent years. In line with these market changes, the Bank actively adjusted its financing strategy, enhanced bidirectional operation of funds, and enhanced yields while ensuring the liquidity. Meanwhile, the Bank made full use of the huge amount of frozen subscription funds, and generated profits by money market operations. In 2007, domestic operations of the Bank reached RMB6,096.7 billion in borrowing from and lending to other financial institutions, an increase of 27.6%, of which lending totaled RMB4,113.3 billion, and borrowing amounted to RMB1,983.4 billion.

With respect to foreign currency, the Bank met its liquidity requirements by means of bond repo, adjustment of lending term structure, etc. The Bank's foreign currency transaction volume in the money market reached USD868.2 billion, up 43.5%.

Management of Investment Portfolio

Business of Trading Book

The interest rates of the inter-bank market kept increasing in 2007, while the bond price index kept falling. The Bank adopted the trading strategy of "short duration" for RMB bond trading, in order to mitigate the risk of decrease in bond market value. Meanwhile, it strengthened arbitrage trading to achieve a better return. As a market-maker in the inter-bank market, the Bank quoted, on a bidirectional basis, for bonds covering all the five terms and three credit ratings, and provided daily quotations for 12 bonds. On the OTC market, the Bank quoted for 33 bonds as a market-maker, with transaction volume of OTC book-entry bonds reaching RMB1.53 billion, ranking first in the market in terms of market share. In 2007, the transaction volume of the held-for-trading RMB bonds exceeded RMB2 trillion for the first time. Since the establishment of foreign currency bond trading book at the beginning of the year, the Bank closely monitored the movement of the bond market, intensified efforts in trading, and achieved rapid development in the business, with transaction volume reaching USD5.12 billion in 2007.

Banking Book Business

In light of the continuing increases in RMB interest rates, the primary focus of the Bank's RMB bond investment is the prevention of interest rate risk. The Bank invested mainly in medium and short-term RMB bonds, and controlled the portfolio duration at a lower level. The Bank strengthened the forecast and analysis of the interest rate movement in the market, and increased investment in floating-rate bonds. The Bank raised the proportion of investment in such credit bonds as financial bonds and short-term financing notes, and expanded the investment size of treasury bonds. The yield of the Bank's investment portfolio further improved, and as at the end of 2007, the balance of RMB banking book bond investment amounted to RMB2,858,554 million.

In response to the drastic turbulence of the US bond market due to the sub-prime mortgage crisis, the Bank actively adjusted its foreign currency bond investment portfolio, appropriately reduced mortgaged bonds position, optimized the portfolio structure in terms of interest rate and product and remarkably improved return on investment.

Agency Treasury Operations

The Bank provided its corporate and personal customers with a variety of treasury services. RMB and foreign exchange trading services include spot foreign exchange trading services, forward foreign exchange trading services, RMB and foreign currency swap and RMB interest rate swap services. Foreign exchange trading services include 24-hour foreign exchange transactions, forward foreign exchange trading services, swaps, options and other derivative transactions. The Bank also conducted domestic and foreign currency wealth management and asset-liability management services on behalf of customers, and provided personal customers with paper gold transaction services.

In 2007, the Bank further expanded its agency treasury operations, enriched service categories, increased trading size and yield, and continuously explored new sources of trading profit growth. The Bank's customer-driven foreign currency treasury transactions amounted to USD275,831 million, of which RMB foreign exchange transaction volume (spot transaction) reached USD179,926 million, foreign exchange transaction volume (including paper gold) reached USD30,409 million, and transaction volume of derivative products reached USD65,496 million.

Distribution Channels

Branch Network

In 2007, the Bank appropriately adjusted the total number of its retail outlets to sustain its competitive edge, and gave priority to the optimization of regional layout, the building of a multi-level and multi-functional system of retail outlets and improvement of outlet service capability in respect of management of branch offices.

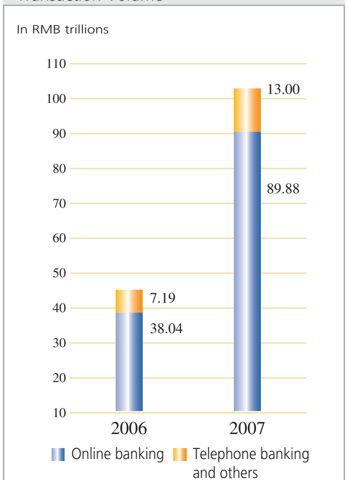
According to the requirements for the establishment of an international leading financial service enterprise, the Bank scientifically and reasonably controlled the total number and size of retail outlets based on its operational development strategy, capital constraints and requirement on shareholder return. The Bank reasonably adjusted the resource allocation for retail outlets in each economic region, centering on urban branches and giving prominence to the layout of retail outlets in large and medium-sized cities. With a view to enhance market competitiveness and service innovation of retail outlets, the Bank actively implemented a differential retail outlet development strategy, established a multi-level and classified retail outlet function system, planned and constructed a number of wealth management centers targeting medium- and high-end customers as well as VIP wealth management centers, and promoted the strategic transition of outlet operations. With a view to reengineering the marketing channels, the Bank implemented a multi-channel coordinated development strategy, intensified efforts to plan and develop channels such as self-service banking, online banking and telephone banking services, brought the synergistic effect of these channels into play, and actively built a diversified and omni-directional marketing system.

At the end of 2007, the Bank had 16,476 institutions in Mainland China, including the Head Office, 30 tier-1 branches, 5 branches directly controlled by the Head Office, 27 banking offices of tier-1 branches, 385 tier-2 branches, 3,055 tier-1 sub-branches, 12,952 front line business outlets, 19 outlets directly under the Head Office and their branch offices, and two major controlling subsidiaries.

E-banking

The Bank's e-banking business continued to lead the market in terms of channels, products, customers and branding. In order to enhance the competitiveness of its products, the Bank strived to establish and improve its six platforms, i.e. e-banking treasury management, fee collection and payment, marketing services, financial wealth management, agency sales and e-commerce, as well as the four e-banking channels, i.e. online banking, telephone banking, mobile phone banking and self-service banking. Focusing on customer-oriented products and business innovation, the Bank successfully launched 44 new products, optimized 174 products and functions, and continuously improved its service capability and quality. The Bank promoted the building and development of e-banking demonstration projects, and established e-banking service centers at 1,612 outlets, increasing the number of outlets with such centers to 4,013. The number of e-banking customers increased rapidly, reaching 80.96 million at the end of 2007, up 62.4%. The business volume of e-banking service reached RMB102.88 trillion, achieving a leap-forward growth of 127.5%. The e-banking transactions accounted for 37.2% of the total number of business transactions of the Bank, an increase of 7.1 percentage points, indicating an enhanced role of e-banking in lessening the workload of tellers.

Growth of E-banking Transaction Volume



Note: domestic operations data

Online Banking

In 2007, in light of the active development of e-commerce, the Bank took the opportunity to enrich its online banking products and functions, and promote the growth of online banking customers and scale of business. The Bank launched innovative products such as e-remittance, agency physical gold, centralized banking-futures account transfer and short term wealth management, and optimized the products and functions of online funds and bank-enterprise links and integration. In 2007, the Bank achieved a transaction volume of RMB85.74 trillion in corporate online banking, and RMB4.15 trillion in personal online banking, an increase of 133.8% and 205.1%, respectively. The number of personal online banking customers increased by 15.83 million to 39.08 million, and the number of corporate online banking customers rose by 380,000 to 980,000.

The Bank has won the "Best Personal Online Bank in China" for five consecutive years from Global Finance of the US, and won the titles of "the Best Deposit Service Online Bank in Asia" and "the Best Deposit Service Online Bank in the World" for the first time. In the second "Online Bank Evaluation" sponsored by www.hexun.com, the Bank achieved first place by an overwhelming margin. It also won the "Best Online Bank in China" in 2007 awarded by the China Financial Center of Authentication (CFCA).

Telephone Banking

The Bank further enriched its e-banking products and functions and launched new products such as inter-bank remittance, insurance agency and foreign currency funds via telephone banking service, and optimized functions such as telephone fund and Jiaofeitong. The Bank completed the assumption of custody of the telephone banking business of two branches in Henan and Jiangsu, thereby further intensifying its telephone banking business. In 2007, the Bank handled 250 million incoming calls for telephone banking services, including 28.51 million calls handled manually. In the selection of the best call center in China, the Bank was recognized as the "Best Call Center Management Team in China" and the "Best Call Center Manager". In the fourth selection of the best call center in Asia-Pacific region, the Bank won the "Award for Outstanding Achievements of Call Center in China".

Self-service Banking

The Bank increased investment into self-service equipment, rapidly expanded its self-service banking network and optimized the transaction interface of ATMs, in order to provide secure, quick and quality services to cardholders. The capability of diverting counter operations to self-service banking continuously improved. At the end of 2007, the Bank owned 4,890 self-service banking centers and 23,420 ATMs, representing an increase of 80.8% and 17.6%, respectively. The annual transaction volume of ATMs reached RMB1,069.6 billion, up 71.0%.

Item	At 31 December 2007	At 31 December 2006	Growth Rate (%)
Number of e-banking customers (10,000)	**8,096**	**4,984**	**62.4**
Includes: Corporate customers	198	147	34.7
Personal customers	7,898	4,837	63.3
Number of online banking customers (10,000)	**4,006**	**2,385**	**68.0**
Includes: Corporate customers	98	60	63.3
Personal customers	3,908	2,325	68.1

Internationalized and Diversified Operation

Implementation of Internationalized Operation Strategy

The Bank is actively implementing an internationalized operation strategy, in order to adapt to the trend of economic and financial globalization and to meet the global financial service needs of its customers. Through establishment of overseas branches, merger and acquisition and other means, the Bank steadily structured a global network that mainly focuses on countries and regions of emerging markets and covers main international financial centers and major regions with economic and trade links with China. The Bank built up an operational platform that integrates domestic and overseas business, and is gradually developing from a local leading bank into an influential bank in Asia, laying a solid foundation for finally turning into a global leading bank.

The Bank completed the acquisition of Bank Halim Indonesia and put it into operation. The Bank also opened ICBC (Moscow), and passed resolutions for the acquisition of a 20% stake in Standard Bank of South Africa and a 79.9333% stake in Seng Heng Bank of Macao. Furthermore, its application for the establishment of a New York Branch in the US, a Dubai Subsidiary in the Middle East, Doha Branch[1], and a Sydney Branch in Australia has been approved by CBRC, and the Bank now is seeking permission from overseas regulatory authorities. At the end of 2007, the Bank has branched out its operations to 13 countries and regions, with 112 branches and outlets abroad, and had established correspondent bank relationships with 1,349 foreign banks in 122 countries and regions. The overseas network has taken shape.

Industrial and Commercial Bank of China (Asia) Limited

ICBC (Asia) is a bank registered in Hong Kong and listed on SEHK, and has a share capital of HKD2,451.90 million, with the Bank holding 62.98% of the shares[2]. It provides comprehensive commercial banking services such as trade finance, IPO reception and dividend distribution, commercial credit, investment service, credit card, custody, e-banking, etc. At the end of 2007, ICBC (Asia) recorded total assets of USD24.65 billion, and net assets of USD1.92 billion. It generated net profits of USD206 million in the year, an increase of 29.2%.

1 On 31 January 2008, the Bank was officially approved by Qatar Financial Centre Regulatory Authority on establishment of Doha Branch and received the business license. The branch will start operation after going through all necessary fomalities.

2 As of 24 January 2008, the Bank held a 71.21% stake in ICBC (Asia) (refer to Significant Events — Major Asset Acquisition, Sale, Absorption and Merger Events).

ICEA Finance Holdings Limited

ICEA, a controlled subsidiary of the Bank, is incorporated in the British Virgin Islands and headquartered in Hong Kong. It has a registered capital of USD20 million, in which the Bank holds a 75% stake. ICEA mainly engages in investment banking, including mergers and acquisitions, financial advisory services, debt financing, debt restructuring, stock market services, securities sales and brokerage. As of the end of 2007, ICEA recorded total assets of USD470 million, and net assets of USD69 million. It generated net profits of USD23.82 million in the year.

Industrial and Commercial International Capital Limited

ICIC, a wholly-owned subsidiary of the Bank, was incorporated in Hong Kong with a restricted license, and has a registered capital of HKD280 million. It mainly engages in international settlement, trade finance, commercial loans and personal loans. At the end of 2007, ICIC recorded total assets of USD325 million, and net assets of USD45.62 million. It generated net profits of USD8.71 million in the year.

PT. Bank ICBC Indonesia

ICBC (Indonesia), a commercial bank registered in Indonesia, became a controlled subsidiary of the Bank on 28 September 2007. It has a registered capital of 100 billion Indonesia rupiahs, in which CIBC holds a 90% stake. ICBC (Indonesia) mainly engages in Indonesia rupiah and US dollar denominated deposits, commercial loans, international settlement and foreign exchange business. At the end of 2007, ICBC (Indonesia) recorded total assets of USD68.43 million and net assets of USD11.57 million.

ICBC (London) Limited

ICBC (London), a wholly-owned bank of the Bank, has a registered capital of USD200 million. It provides a full spectrum of banking services such as deposit, remittance, lending, trade finance, foreign exchange and wealth management. At the end of 2007, ICBC (London) recorded total assets of USD810 million, and net assets of USD200 million. It generated net profits of USD4.32 million in the year, an increase of 79.6%.

Industrial and Commercial Bank of China (Almaty) Joint Stock Company

ICBC (Almaty), a wholly-owned bank of the Bank, was incorporated in Kazakhstan, with a registered capital of USD10 million. It principally engages in commercial banking services such as deposit, remittance, foreign currency conversion, guarantee and account management. At the end of 2007, ICBC (Almaty) recorded total assets of USD46.30 million, and net assets of USD17.21 million. It generated net profits of USD2.12 million in the year, an increase of 34.7%.

ICBC Luxembourg S.A.

ICBC Luxemburg, a wholly-owned bank of the Bank, was incorporated in Luxemburg, with a registered capital of USD18.50 million. The Bank improved its branch network and expanded its retail and private banking business in Europe through local customer resources and regulatory environment.

ZAO Industrial Commercial Bank of China (Moscow)

ICBC (Moscow), a wholly-owned bank of the Bank, was incorporated in Russia on 12 October 2007, with a registered capital of 1 billion rubles. It provides a full spectrum of personal and corporate banking services such as international settlement, trade finance, deposit and wealth management.

Promotion of the Diversified Operations Strategy

With the continuous improvement of the legal framework and the policy for diversified operations in the financial industry in China, ICBC achieved remarkable progress in setting up diversified operations on a trial basis. The Bank regards diversified operations as an indispensable means to the strategic transition and strengthening of its comprehensive competitiveness, and enhanced the management of controlled and wholly-owned subsidiaries, including ICBC Credit Suisse Asset Management and ICBC Leasing. The Bank has accelerated the business integration of operations in Hong Kong. The Bank also actively explored diversified operations in financial areas such as securities, insurance and trust, and gradually shaped a cross-market comprehensive financial service system that focuses on the commercial banking business.

ICBC Credit Suisse Asset Management Co., Ltd.

ICBC Credit Suisse Asset Management, a controlled subsidiary of the Bank, has a registered capital of RMB200 million, in which ICBC holds a 55% stake. It mainly engages in fund and asset management, fund placement and such other businesses as approved by CSRC. As at the end of 2007, it managed a total of six open-ended funds, which had assets under management of approximately RMB58.29 billion, total assets of RMB610 million and net assets of RMB470 million. ICBC Credit Suisse Asset Management generated net profits of RMB200 million during the year. It was awarded the "2007 Taurus Fund in the Open-ended Money Market" in the fifth "Taurus Award of Chinese Funds" sponsored by China Securities.

ICBC Financial Leasing Co., Ltd.

ICBC Leasing, a wholly-owned subsidiary of the Bank, was incorporated in Binhai New Area of Tianjin in November 2007, with a registered capital of RMB2 billion. It is the first innovative financial leasing company in China approved by CBRC, and mainly engages in innovative financial services, such as financial leasing and other kinds of leasing of ships, aircraft and large scale equipment, rental assignment and securitization, asset management, and industrial investment consultation.

Special Purpose Entities Controlled by ICBC

ICBCA (C.I.) Limited

ICBCA (C.I.) Limited, a wholly-owned subsidiary of ICBC (Asia), was incorporated in September 2004, and is registered in the Cayman Islands. It was established for the special purpose of issuing bonds and it has no operating activity. On 16 September 2004, ICBCA (C.I.) Limited issued USD400 million of fixed rate notes to raise funds for ICBC (Asia), which provided unconditional and irrevocable guarantee for the notes. The fund raised from the issuance was deposited in the account of ICBC (Asia) in the form of fixed deposits. All assets and liabilities of ICBCA (C.I.) Limited are connected with the notes.

Information Technology

The Bank adopted a "technology-oriented" strategy, which increased the speed of product innovation, ensured the security and stability of information systems, and further improved the technology system. In 2007, the Bank was ranked at the top of the list of "Top 500 Chinese Information-Oriented Enterprises". It has also won the "2007 Technology Award — Global Banking Cash Management Project" from the British magazine *The Banker*.

Significant Breakthrough in the Innovation of Application Products

In 2007, the Bank quickened the pace of research and development of application products, with the development of 347 new projects and the optimization of 287 existing projects. In the same year, the Bank submitted 35 patent applications to the State Intellectual Property Office, of which five patents were authorized which include four invention patents and one utility model patent. As at the end of 2007, the Bank owned 63 patents.

The Bank also established a customer information system, laying the foundation for providing comprehensive services to customers. The Bank further developed product areas such as customer wealth management, cash management, e-banking, bank card and fee-based businesses, and successfully implemented a comprehensive business processing system for overseas operations. The Bank achieved significant progress in the building of the risk management application system, and implemented a comprehensive financial management system throughout the whole bank. The Bank successfully established a data warehouse platform, and has continuously optimized systems such as the comprehensive statistical system and the customer relationship management system. These measures were instrumental to the promotion of the Bank’s business development and the improvement of the Bank’s operational management capability.

Security and Stability of the Information System

In 2007, the Bank's business processing capacity improved substantially, and the overall applicability of the information system was maintained at a high level. Production and operation monitoring measures were further developed, with the continuous improvement in automatic and standardized management capability. The Bank continued to improve the security of information systems, strengthen customer-end security management, and implemented graded protection measures for information security. The Bank completed the building of a mainframe backup for production centers, established a complete intra-city and inter-city disaster recovery framework, and took the lead in the industry in building a centralized Head Office operation center site-sharing disaster recovery system. The applicability of information system and disaster recovery capability have been further strengthened, and the capacity, functions and technology of the Bank's disaster recovery system are leading on the international level.

Human Resources Management

Human Resources Management and Incentive and Disciplinary Measures

The Bank has continued to strengthen reform in human resources management. In 2007, it successfully implemented a project to improve human resources management, which focused on setting up a job positioning system, broadening staff promotion channels, improving the performance management system and reforming remuneration mechanisms. The Bank established a remuneration distribution mechanism whereby the salary is position and competence based and reward is determined according to performance. The Bank completed the transition from a single administrative job management system to multi-level job positioning management system, and established a vocational development mechanism that allows promotion and job rotation for employees. The Bank also implemented the shift from an appraisal system based primarily on annual qualitative evaluation to a target-oriented performance management system.

Cultivation and Development of Human Resources

Adhering to the strategy of invigorating the Bank with talented people, the Bank launched a series of large-scale, multi-level and multi-channel training for all staff members. In 2007, it held various training courses which amounted to over 38,000 terms, and 2.12 million person-time with 10.4 days of training per person on average. The Bank provided training on strategic transition for business management personnel at all levels, and continued to hold the “Pine Street” leadership training project in cooperation with Goldman Sachs. The Bank provided customer relationship manager training for sales staff, and 159,000 customer relationship managers were trained during the year, almost covering the whole team of customer relationship managers. The Bank continued to launch training programs for certified financial planners and associate financial planners. With a focus on professional qualification certification training, the Bank held training courses for seven key posts, including medium- and high-grade credit approval officers and enterprise financial planners. The bank organized internationally authoritative certification courses for certified financial analysts and financial risk managers, laying a foundation for establishing a reserve of experts. The Bank launched the internet distance learning system and an online university based on the integration of the intranet and the internet, and also established a preliminary internet-based distance examination system. In addition, the Bank consolidated the internal training base, and preliminarily established three management systems, i.e. development and management of university and college training courses, training quality management, and trainer development and management.

Reform of Head Office and Branches

With a view to accomplishing strategic transition with the creation of value as a starting point, the Bank pushed forward organizational reform and process optimization in 2007 according to the basic principles of satisfying customer needs and the balancing of risks. On the one hand, it promoted the optimization and integration of internal business processes. In order to achieve a comprehensive, diversified and internationalized operation strategy whilst maintaining positive interaction with investors, the Bank restructured the Joint-stock Reform Office into the Corporate Strategy and Investor Relations Department, established the Product Innovation Management Department, and optimized the processes of product management and business innovation. It also adjusted the functions and organization of market risk management, and further intensified the controls over market risk. On the other hand, the Bank actively expanded new business fields, established the Financial Futures Settlement Center, and actively applied for special membership for financial futures settlement. In order to accommodate the requirements of the fast-growing wealth management business, the Bank enhanced the management structure of the asset management departments and developed the team of professionals. The Bank further promoted the disintermediary reform of branches with a view to improving operational and management efficiency. By the end of 2007, all branches directly under the Head Office and all tier-2 branches have set out to initiate disintermediary reform.

Cooperation with Strategic Investors

In 2007, the Bank maintained close cooperation with Goldman Sachs, American Express and Allianz, and gained remarkable achievements in the areas of corporate governance, risk management, treasury operations, asset management, bank insurance, bank card, corporate and investment banking businesses, NPL management, and staff training.

Strategic Cooperation with Goldman Sachs

In respect of corporate governance, Goldman Sachs dispatched experts to assist the Bank in information disclosure and management of investor relations, and appointed external advisors to help the Bank implement internal control compliance. In respect of risk management, Goldman Sachs assisted the Bank in carrying out risk strategy studies, stress testing, loan portfolio risk management, country risk management, risk management for the Group's customers, and optimization of the credit business process, and put forward suggestions on improving the management of market and operational risks. In respect of treasury operations, the Bank and Goldman Sachs actively cooperated on the research and development of RMB interest rate derivative products, currency options products and foreign exchange structured products, and the establishment of related IT and risk management systems, in an effort to establish an international leading product trading platform. In terms of staff training, the Bank teamed up with Goldman Sachs in launching the "Pine Street" leadership training project and training for senior and professional elites. Furthermore, both parties also cooperated in the fields of asset management, private banking, investment banking and NPL management.

Strategic Cooperation with American Express

The Bank and American Express intensified cooperation in the fields of product development, marketing, risk management and customer services, and jointly launched the co-brands Peony Staples Express Commercial Card and Peony Hainan Airlines Express Card. As at the end of 2007, the number of issued Peony Express cards exceeded 450,000, with annual consumption totaling RMB6,935 million. Both parties jointly devised the policy of active credit adjustment for the Peony Express Card, initiated the project on the process optimization of credit card bill collection and telephone reminders, implemented various collection plans for overdue cases, and set up a preliminary Peony Card group customer service model and process.

Strategic Cooperation with Allianz

The Bank and Allianz actively cooperated in the bank insurance agency service through their joint venture — Allianz China Life Insurance Co., Ltd ("Allianz China"). The cumulative premium income from agency sales of insurance products exceeded RMB1.4 billion. Allianz China assisted the Bank in introducing sales concepts and models for products such as online insurance and telephone insurance, and establishing a multi-channel insurance marketing network.

Outlook

Looking into the year 2008, China will maintain rapid economic growth, with further improvement in development quality. However, the uncertainties arising from economic activities will increase markedly. Affected by the sub-prime mortgage crisis in the US, the economic growth of major economies in the world, including Europe and America, will obviously slow down, thereby posing challenges for China's economic growth. The pressure of surplus liquidity that China is facing will not substantially change within the short term. CPI will maintain at a high level, and macro-control pressure is likely to further increase. Tight monetary policy will strictly control the growth of credit extension, and the competition in the banking sector will become increasingly fierce. The uncertain business environment in 2008 will inevitably pose new challenges to the Bank's operations and development.

In 2008, the Bank will keep a close eye on the economic and financial environment and market situation at home and abroad and, based on scientific principles of development, continue to maximize shareholder value and take advantage of the rapid economic development in China to speed up strategic transition. It will take the following operational strategies and measures to enhance its core competitiveness and development capabilities that are sustainable. Firstly, the Bank will steadily develop its credit business, intensify efforts to optimize the credit structure, strengthen credit controls over energy-consuming enterprises, high-pollution enterprises and resource-intensive enterprises in line with China's industrial and environmental protection policies, and increase withdrawal of loans with underlying risks. At the same time, it will optimize and re-engineer the credit business process, and improve process efficiency while strengthening the oversight of risks in each process. Secondly, the Bank will devote all its energies to promote fee-based businesses and expand core business lines. In the area of personal finance, the Bank will intensify its efforts to exploit the high-end personal business market, develop the private banking business, boost personal wealth management services and bank card business development, and build a diversified personal product and service system. In the area of corporate finance, the Bank will strive to reinforce the asset management business, expand the scale of the custody and annuity business, leverage its traditional advantages to further increase the market share of settlement and cash management products, and develop the cooperation potential of bank-insurance, bank-securities, bank-futures and inter-bank businesses. It will take advantage of appropriate opportunities to achieve breakthrough in investment banking, and fully utilize the platform of ICBC Financial Leasing to accelerate the development of the leasing business, explore diversified operation models and gather experience in this regard. Thirdly, the Bank will prudently manage its funds and improve the efficiency in fund utilization. In light of the pressures brought by interest rate liberalization, the Bank will actively broaden its investment scope, optimize the asset structure, and steadily raise the return on non-restructuring securities investment. Fourthly, the Bank will strengthen improvement in the service marketing system, boost the integration and upgrade of channels, further improve service quality, and provide more convenient and efficient service channels for customers. Fifthly, the Bank will push forward the building of an all-round risk management system, closely monitoring the trends in the economic cycle, and taking various risk monitoring and control measures to promote the timely evaluation and the effective prevention and mitigation of various asset and business risks. According to the requirements of Basel II, the Bank will steadily push forward the internal rating-based approach project, further improve the non-retail project rating system, establish a framework and management system for retail asset credit rating, and enhance the building of market risk and operational risk systems. Sixthly, the Bank will expand its presence in the international market, actively seek for appropriate merger and acquisition opportunities, accelerate the expansion of overseas service network and strengthen its global asset allocation capability. Seventhly, the Bank will make efforts to cultivate its corporate brand and culture in order to gain a good reputation in the market and to build a harmonious bank.

In 2008, the Bank expects that RMB loans will realize a growth of approximately 365 billion, and the NPL ratio will be under 2.5%.

RISK MANAGEMENT

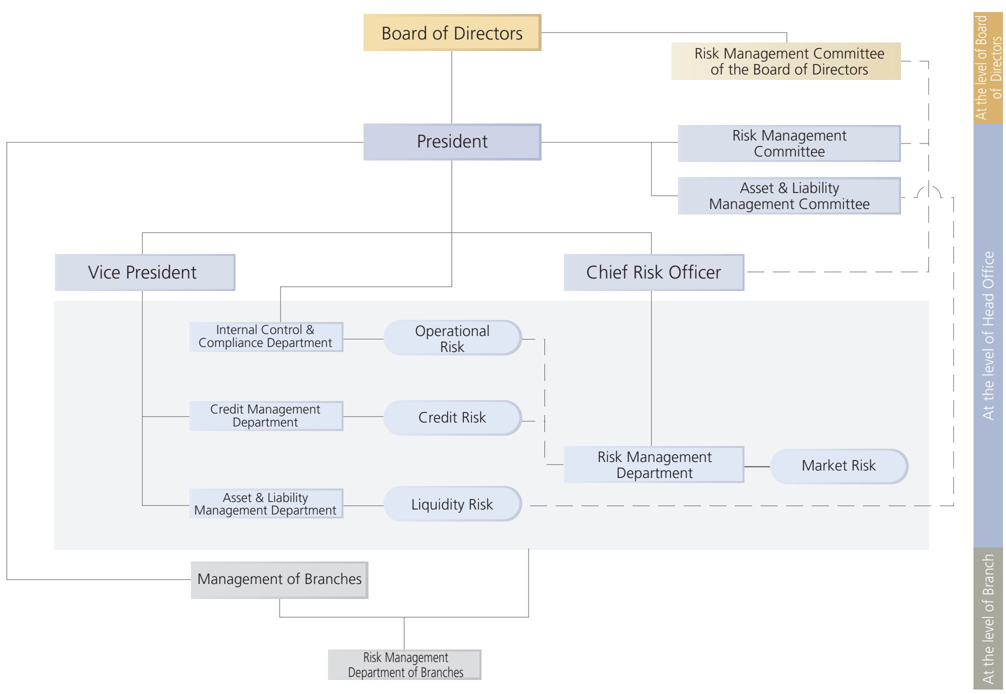
Comprehensive Risk Management System

Comprehensive risk management is a process where the Board of Directors, the Senior Management and other employees of the Bank perform their respective duties and responsibilities to take effective control of all the risks at various business levels in order to provide reasonable guarantee to the achievement of objectives. The principles of risk management include matching of income and risk, internal checking and balance with consideration as to efficiency, risk diversification, combination of quantification and qualification analysis, and use of dynamic adaptability adjustments, etc.

Organizational Structure of Risk Management

The Bank's organizational structure of risk management comprises the Board of Directors and its special committees, the Senior Management and its special committees, Risk Management Department, and Internal Audit Department, etc. In 2007, in addition to the improvement of its overall risk management, the Bank has adjusted the division of responsibilities of its market risk management and the relevant organization structure to ensure that the departments responsible for market risk management are independent from the business operational departments that assume the risks, and further enhance the organizational structure of risk management.

Risk Management Organizational Structure Chart



Risk Management System

In 2007, the Bank has witnessed innovation and development in its risk management system. The Bank has been leading the PRC banking industry in the standardization of risk reporting system by setting up its risk reporting system and promoting collection and timely reporting of risk information. The Bank has further improved its risk management through adoption of advanced risk management concepts and experiences, reconstruction of its overall risk management framework and systemic formulation of risk management principles, objectives and processes. In addition, the Bank has devised and implemented a set of rules and guidelines on market risk management, liquidity risk management, asset quality classification management, and operational process of credit business in order to accelerate the establishment of a comprehensive risk management system.

Infrastructural Construction of Risk Management

In 2007, the work products of Phase II of the Non-retail Internal Rating-based (IRB) System Project have been gradually put into use, have met the requirements for a primary system and paved the way the towards transition into an advanced system. The Bank also initiated the retail IRB system project and has completed the principal part of such project. The Bank successfully launched the Phase I and Phase II of the risk management information supporting platform project and established a reporting platform for its overall risk management. Moreover, the Bank upgraded the NPL management information system.

Credit Risk

Credit Risk Management

The Bank is exposed principally to credit risk. Credit risk is the risk that loss is caused when the borrower or the counterparty fails to meet its contractual obligations. The Bank's credit risks mainly originate from loans, yet bond investment, treasury business and off-balance-sheet businesses may also expose the Bank to credit risk.

The Bank's credit risk management has the following characteristics: (1) Standardized credit management processes are followed throughout the Bank; (2) the principles and processes of risk management focus on the entire process of credit business which covers customer investigation, credit rating, loan evaluation, loan review and approval, loan payment, and post-lending monitoring; (3) special organization is established to supervise the entire process of the credit business; (4) the qualification of the employees who are responsible for credit review and approval is strictly reviewed; and (5) risk is monitored on a timely basis through a set of information management systems. In order to strengthen the Bank's credit risk management, various continuing training programs have been organized for credit personnel at different levels.

In 2007, the Bank launched the "Green Credit" project and optimized the credit structure according to government's macro-economic controls and environmental protection policies. The principal measures taken by the Bank include: building up the concept of "Green Credit" within the Bank, establishing the "One-vote-down system" in support of environmental protection, rejecting projects that go against government industrial policies and environmental-protection policies or may have material adverse impact on the environment, intensifying support for environmental-protection industries and innovation in energy conservation and emission reduction technology; keeping track of the compliance of enterprises with environmental regulations, strengthening post-lending management, strengthening cooperation with environmental-protection authorities, and establishing a sound mechanism for the communication and coordination of information on environmental protection information.

In 2007, the Bank took various measures to control the influx of bank loans into the stock market. Based on customer risk information obtained from Client Information Integration Solution (CIIS) system as well as the personal credit management system of PBOC and other regulatory institutions, the Bank strengthened its review of borrower's credit and use of loans, improved the fund-flow analysis function in the credit management systems, strengthened the monitoring of the flow of funds advanced to customers, conducted in-depth investigations to discover the potential risk in transactions with other financial institutions, and reviewed the use of working capital loans, personal business loans, personal consumption loans and small enterprise loans to prevent borrowers from using the loans in breach of the contract.

Credit Risk Management of Corporate Loans

- The Bank optimized the operation processes for corporate and small enterprise customers, and innovated and developed credit management policies in respect of various product lines such as trade finance and small enterprise credit business. It also strengthened the risk monitoring and classification management for large borrowers, improved off-site credit monitoring and intensified on-site credit inspection.
- The Bank enhanced the regional credit policy system and focused on the development of credit business in Yangtze River Delta, Pearl River Delta and Bohai Rim. It also maintained and enhanced the Risk Warning Meeting System, Trading Suspension and Resumption System and strictly controlled regional risks.
- The Bank adhered to the principle of differentiated treatments in respect of various industries, the Bank accelerated, industry structure optimization, strengthened the customer selection criteria, and controlled the growth of loans provided to energy-consuming, high-pollution and resource-intensive enterprises and accelerated customer composition restructuring.
- The Bank adjusted and updated its credit policies related to real-estate business according to the latest macro-economic-control policies and regulatory requirements. It examined real estate loans in order to detect and eliminate risk in a timely manner, and exercised monthly monitoring of loan quality and made timely risk reminders.
- The Bank strengthened the management of trade financing, implemented policies designed for the trade financing business and optimized the business processes. It also strengthened the post-lending management and focused on the follow-up monitoring of logistics, fund-flow and bill-flow.
- The Bank kept enhancing its credit management system for small enterprises and optimized the credit business process. The Bank clearly defined and specified the entry criteria for small enterprise credit businesses according to the requirements of environmental protection and the "Green Credit" policy, decreased the loan balance with and forced the exit of small enterprises which cannot survive during economic cycles or have environmental protection issues, and strengthened the management of the sufficiency of small enterprises' collateral to prevent operational risks.
- The Bank constantly improved its information technology in corporate credit management, enhanced the Credit Management System (CM2002), so as to enable a customized inquiry function on funds which allows follow-up inquiries to be made on large amount payment and fund transfer between accounts.

Credit Risk Management of Personal Loans

- The Bank optimized the operation process of the personal credit business and further standardized its operation. The Bank enhanced the classification system and management of the "special mention" category of personal loans in order to reflect the loan quality in a more realistic and objective manner.
- The Bank revised policies on personal-housing loans according to the regulatory requirements and raised the proportion of down payment and interest rate of the loans for second house purchases.
- The Bank revised the administrative measures for personal-housing loans and adjusted the entry and exit criteria of partnership institutions.
- The Bank revised personal business loans policies and further specified borrowers' qualification and post-lending management, etc. The Bank continued to implement name list management systems, strengthened loan inspection and researched risk control measures.
- The Bank continued to improve the information technology for personal credit management, enhanced the Personal Credit Management System (PCM2003) and established credit business processes based on local management capability in different areas and the risk of various products. It also strengthened mortgage management and performed timely revaluation according to system reminders.

Credit Risk Management of Credit Card Business

The Bank enhanced its capability on early identification, quantitative evaluation and timely warning of credit risks and improved the asset quality management system. In addition, the Bank dynamically revised the risk management policies on card issuance and the processes of credit review and credit limit adjustment. The Bank incorporated identity checks into the procedures of handling application form and follow-up services and standardized real-time monitoring processes. The Bank also specified and standardized the duties and responsibilities of the overdraft collection posts at various card issuance offices and clarified the collection process.

Credit Risk Management of Treasury Operation

The Bank's treasury business is exposed to credit risks as a result of investment activities and inter-bank placement. The Bank's purchase of bonds from or transfer of funds to any entity (except the Chinese government) is subject to a particular upper limit of the Bank's authorized credit line. RMB investment portfolio mainly includes bonds and securities issued by the Chinese government and other issuers in China, while foreign currency investment portfolio mainly includes investment-grade bonds.

The Bank's credit risk management measures for treasury operation mainly include credit limit control, investment limit (scale) control, deposit control, minimum rating requirement and maximum limit for single transaction, etc. In 2007, the Bank improved its debt/credit management, brought all treasury business into the scope of a unified credit management and clearly brought financial derivatives and bond investment in banking accounts into the scope of a unified credit system.

Credit Asset Classification Management

According to the regulatory requirements on loan risk classification, the Bank performs five-tier classification management on the quality of loans and classifies loans into five categories: pass, special mention, sub-standard, doubtful and loss, based on the possibility of collecting the principal and interest of loans. In order to enhance the management of credit asset quality and improve risk management, the Bank implemented the twelve-tier internal classification system for corporate loans. In 2007, the Bank revised its policies for credit asset quality classification of corporate customers and further improved the process of loan classification in order to further standardize the operation of credit asset quality classification of corporate customers.

The Bank performs a five-tier classification management on the quality of personal credit asset and takes into consideration the borrowers' default months, expected loss ratio, credit status, guarantee status as well as other qualitative and quantitative factors.

In 2007, the Bank strengthened the collection and disposal of NPL through a combination of cash collection, repossession of assets and write-off of bad debt, etc. The Bank prioritized cash collection as the principal approach, steadily conducted write-off of bad debt and further standardized work process for doubtful debt treatment. The Bank also improved the management of repossessed assets to accelerate the turnover and optimize the composition of such assets. The Bank took innovative initiatives in the management of large-amount NPL and enhanced the supervision and analysis reporting on those loans.

Credit Risk Analysis

At the end of 2007, the details of the Bank's maximum exposure to credit risk without taking account of any collateral and other credit enhancements are listed as follows:

MAXIMUM EXPOSURE TO CREDIT RISK

In RMB millions

Item	At 31 December 2007	At 31 December 2006
Balances with central banks	1,103,223	672,211
Due from banks and other financial institutions	199,758	206,506
Financial assets held for trading	31,501	19,345
Financial assets designated at fair value through profit or loss	2,785	1,768
Derivative financial assets	22,769	10,539
Reverse repurchase agreement	75,880	39,218
Loans and advances to customers	3,957,542	3,533,978
Financial investment		
Receivables	1,211,767	1,106,163
Held-to-maturity debt securities	1,330,085	1,228,937
Available-for-sale investment	524,723	499,108
Other assets	59,136	40,381
Sub-total	**8,519,169**	**7,358,154**
Credit commitments	**789,687**	**694,494**
Total credit risk exposure	**9,308,856**	**8,052,648**

DISTRIBUTION OF LOANS BY COLLATERALS

In RMB millions, except for percentages

	At 31 December 2007		At 31 December 2006	
Item	Amount	% of total	Amount	% of total
Loans secured by mortgages	1,519,748	37.3	1,241,259	34.2
Including: personal housing loans(1)	536,331	13.2	410,227	11.3
Pledged loans	575,598	14.1	710,391	19.6
Including: discounted bills(1)	252,103	6.2	412,313	11.3
Guaranteed loans	836,476	20.6	809,745	22.3
Unsecured loans	1,141,407	28.0	869,776	23.9
Total	**4,073,229**	**100.0**	**3,631,171**	**100.0**

Note: (1) Data of domestic branches.

At the end of 2007, the Bank's unsecured loans amounted to RMB1,141,407 million, representing an increase of RMB271,631 million or 31.2% compared to that at the end of the previous year, which reflects a growth in the Bank's loans to customers with higher credit rating. The Bank's loans secured by mortgages remained the largest component of total loans with an amount of RMB1,519,748 million, representing an increase of RMB278,489 million or 22.4%.

The Bank determines the amount and type of mortgage to be obtained on the basis of the credit risk evaluation of counterparties and provides relevant guidelines for the type of mortgage and evaluation parameters. Collaterals are provided in the form of bills, loans or securities for reverse repurchase agreements, in the form of real estates and other assets for commercial loans, and in the form of residents' houses for personal loans. The Bank conducts regular evaluation of market value of mortgage and requests additional mortgage according to the relevant agreement when necessary.

At the end of 2007, the book value of the Bank's repossessed assets totaled RMB4,440 million, mainly including buildings and properties. The balance of allowance for impairment loss of repossessed assets amounted to RMB1,040 million and RMB253 million was provided for the impairment losses of repossessed assets during the year of 2007.

DISTRIBUTION OF LOANS BY REMAINING MATURITY

In RMB millions, except for percentages

	At 31 December 2007		At 31 December 2006	
Remaining Maturity	**Amount**	**% of total**	**Amount**	**% of total**
Overdue	98,646	2.4	150,736	4.2
Under 1 year	1,772,141	43.5	1,715,193	47.2
1–5 years	1,073,224	26.4	895,651	24.7
Over 5 years	1,129,218	27.7	869,591	23.9
Total	**4,073,229**	**100.0**	**3,631,171**	**100.0**

At the end of 2007, the Bank's loans due in more than one year were RMB2,202,442 million, accounted for 54.1% of the total loans; the loans due in less than one year totaled RMB1,772,141 million, accounting for 43.5%, which were mainly composed of corporate working capital loans and discounted bills; overdue loans decreased by 1.8 percentage points from the end of the previous year to RMB98,646 million, accounting for 2.4% of the total loans.

RENEGOTIATED LOANS

At the end of 2007, renegotiated loans and advances amounted to RMB38,381 million, representing a decrease of RMB21,211 million or 35.6% compared to that at the end of the previous year. Renegotiated loans and advances overdue for more than three months totaled RMB28,765 million, representing a decrease of RMB19,775 million.

LOAN CONCENTRATION

At the end of 2007, the Bank's loans to the largest single customer accounted for 3.1% of its net capital; and the loans to the top ten customers in aggregate accounted for 21.1% of its net capital, both in compliance with the regulatory requirements. The loans to the top ten customers totaled RMB121,843 million, accounting for 3.0% of total loans.

BORROWER CONCENTRATION

In RMB millions, except for percentages

Borrower	Industry	Amount	Percentage of total loans (%)
Borrower A	Transportation and logistics	18,038	0.4
Borrower B	Mining	16,439	0.4
Borrower C	Transportation and logistics	13,683	0.3
Borrower D	Water resources, environmental protection and public facilities management industry	11,422	0.3
Borrower E	Power generation and supply	11,000	0.3
Borrower F	Information transmission, computer service and software industry	10,950	0.3
Borrower G	Water resources, environmental protection and public facilities management industry	10,481	0.3
Borrower H	Transportation and logistics	10,240	0.3
Borrower I	Transportation and logistics	10,199	0.2
Borrower J	Water resources, environmental protection and public facilities management industry	9,391	0.2
Total		**121,843**	**3.0**

DISTRIBUTION OF LOANS BY FIVE-TIER CLASSIFICATION

In RMB millions, except for percentages

	At 31 December 2007		At 31 December 2006	
Item	Amount	% of total	Amount	% of total
Pass	3,728,576	91.54	3,165,586	87.18
Special mention	232,879	5.72	327,840	9.03
Non-performing loans	111,774	2.74	137,745	3.79
Sub-standard	38,149	0.94	66,756	1.84
Doubtful	62,042	1.52	62,036	1.71
Loss	11,583	0.28	8,953	0.24
Total	**4,073,229**	**100.00**	**3,631,171**	**100.00**

2007 witnessed further improvement in the Bank's loan quality. In accordance with the five-tier classification, the Bank's pass loans increased by RMB562,990 million to RMB3,728,576 million, and accounted for 91.54% of the total loans, up by 4.36 percentage points compared to the end of the previous year, which reflected an increase in the Bank's high quality loans. The Bank's special mention loans decreased by RMB94,961 million to RMB232,879 million, and accounted for 5.72% of the total, down by 3.31 percentage points mainly because the Bank has further strengthened the management on special mention loans and expedited the exit from loans with potential risk. The balance of NPLs was RMB111,774 million, a decrease of RMB25,971 million and the NPL ratio was 2.74%, down by 1.05 percentage points; mainly because the Bank has accelerated the collection and disposal of NPLs through cash collection, write-off and other ways. The Bank also strengthened the monitoring and disposal of loans with potential risk.

NPLs BY BUSINESS LINE

In RMB millions, except for percentages

Item	At 31 December 2007 Amount	At 31 December 2007 NPL ratio (%)	At 31 December 2006 Amount	At 31 December 2006 NPL ratio (%)
Corporate loans	102,198	3.51	127,115	5.02
Discounted bills	—	—	—	—
Personal loans	8,610	1.14	9,298	1.61
Overseas operations	966	0.63	1,332	1.19
Total	**111,774**	**2.74**	**137,745**	**3.79**

At the end of 2007, the Bank witnessed a decline in both the balance and the ratio of non-performing corporate and personal loans in domestic operations. The non-performing corporate loans of domestic operations decreased by RMB24,917 million and the NPL ratio declined by 1.51 percentage points, mainly because: (1) the Bank strengthened the implementation of credit policies and further optimized the loan distribution; (2) the Bank expedited the exit from loans with potential risks; and (3) the Bank accelerated the collection and disposal of NPLs. The non-performing personal loans decreased by RMB688 million and the NPL ratio declined by 0.47 percentage point, mainly because: (1) the Bank enhanced the operational processes of personal loans in order to effectively prevent credit risks; and (2) the Bank further strengthened the collection and disposal of loans in delinquency.

DISTRIBUTION OF NON-PERFORMING CORPORATE LOANS OF DOMESTIC OPERATIONS BY INDUSTRY

In RMB millions, except for percentages

Item	At 31 December 2007 Amount	At 31 December 2007 NPL ratio (%)	At 31 December 2006 Amount	At 31 December 2006 NPL ratio (%)
Manufacturing	55,766	7.56	68,334	10.16
Chemicals	9,940	8.20	12,969	11.49
Machinery	8,411	8.79	9,957	12.17
Iron and Steel	1,601	1.90	3,084	4.38
Textile and apparels	6,864	8.68	6,611	9.67
Metal processing	3,377	4.34	4,280	6.84
Electronics	3,659	8.47	3,238	8.36
Automobile	1,837	4.32	3,109	7.93
Petroleum processing	1,031	2.88	836	1.87
Cement	4,467	14.43	5,281	17.49
Other	14,579	11.44	18,969	15.32
Transportation and logistics	6,320	1.05	6,687	1.27
Power generation and supply	5,344	1.32	6,433	1.88
Property development	8,559	2.82	9,982	4.34
Water, environment and public utility management	1,118	0.49	1,142	0.55
Retail, wholesale and catering	15,949	8.53	23,085	15.69
Leasing and commercial services	1,349	0.84	2,247	2.08
Science, education, culture and sanitation	1,876	2.69	2,212	3.06
Construction	1,351	2.57	1,508	3.02
Others	4,566	2.74	5,485	3.12
Total	**102,198**	**3.51**	**127,115**	**5.02**

Note: Please refer to "Financial Statement Analysis — Analysis on Balance Sheet Items — Asset Deployment — Loans" for description of the Bank's adjustment of distribution of loans and extent of such adjustment.

At the end of 2007, the NPLs in the manufacturing industry decreased by RMB12,568 million and the NPL ratio declined by 2.60 percentage points; NPLs in retail, wholesale and catering industries decreased by RMB7,136 million and the NPL ratio declined by 7.16 percentage points; NPLs in property development industry decreased by RMB1,423 million and the NPL ratio declined by 1.52 percentage points; NPLs in the power generation and power supply industry decreased by RMB1,089 million and the NPL ratio declined by 0.56 percentage point. The rise of the NPL ratio in the petroleum processing and electronics industries was mainly triggered by the NPLs in several enterprises.

CHANGES IN ALLOWANCE FOR IMPAIRMENT LOSSES OF LOANS

In RMB millions

Balance at the beginning of the year	**97,193**
Charge for the year	33,061
Accreted interest on impaired loans	(1,430)
Transfer-out[(1)]	(4,966)
Write-offs	(8,171)
Balance at the end of the year	**115,687**

Note: (1) Transfer-out refers to the corresponding impairment allowance released as the Bank repossessed the collateral assets in settlement of the related loans.

ALLOWANCE FOR IMPAIRMENT LOSSES OF LOANS BY ASSESSMENT APPROACH

In RMB millions, except for percentages

	At 31 December 2007		At 31 December 2006	
Item	Amount	% of total	Amount	% of total
Individually assessed	58,944	51.0	56,991	58.6
Collectively assessed	56,743	49.0	40,202	41.4
Total	**115,687**	**100.0**	**97,193**	**100.0**

At the end of 2007, the allowance for impairment losses of loans was RMB115,687 million, representing an increase of RMB18,494 million compared to that at the end of the previous year. The allowance to NPL was 103.50%, up by 32.94 percentage points. The ratio of the allowance to total loans was 2.84%, up by 0.16 percentage point.

Market Risk Management

Market risk is the risk of loss in respect of the Group's on and off-balance sheet activities, arising from the adverse movements in market prices (interest rates, exchange rates, stock prices and commodity prices). The Bank's market risks include interest rate risks and currency risks (including gold), which refers to the risks triggered by adverse movements in interest rates and exchange rates respectively. The objective of market risk management is to control market risks within a tolerable scope and maximize risk-adjusted return based on the Bank's risk preference.

The Bank's market risk management refers to the entire process of identifying, measuring, monitoring, controlling and reporting market risks, for the purposes of establishing and enhancing the market risk management system, specifying segregation of duties and procedures, determining and standardizing measurement methods, establishing limits as management indicators and market risk reports, controlling and preventing market risks, and improving market risk management.

The Bank has formulated and established a set of market risk management policies and further enhanced the procedures and approaches concerning market risk identification, measurement, limit management, report as well as mark-to-market and emergency treatment of significant market risks. Currently, the Bank is striving to establish a unified market risk management system. The Bank has revised the functions of market risk management and the relevant organisational structure to ensure the independence of departments responsible for market risk management from business operation departments that assume the risks and implement the principle of separating the front, middle and back offices in market risk management, whereby independent market risk reports can be submitted to the Board of Directors and the senior management.

Banking Book and Trading Book

For the purposes of adopting more effective market risk management and accurately measuring capital under market risk supervision based on the characteristics of different accounts, the Bank divides assets and liabilities of both on and off-balance sheet into trading book and banking book. Trading book refers to freely negotiable financial instruments and commodity positions held by a bank for the purposes of trading or hedging other risks of the trading book, whereas all other positions are included in banking book.

Market Risk Management of Trading Book

The Bank has established a centralised system for a unified market risk management to realize the integration of transaction data, risk measurement as well as limit management of trading book. The Bank's management and measurement approaches of market risks in the trading book mainly include sensitivity analysis, duration, convexity and stress testing, etc.

The Bank has established market risk limits for trading book and conducted daily monitoring of the market value of the Bank's trading securities. The limit management indicators of market risks over trading book include exposure limit, stop loss limit, sensitivity limit, etc. The Bank designated different levels of market risk limit indicators to different grades of trading desks and traders, monitored and analyzed the limits and reported the implementation of limit management through the defined risk reporting channel.

Market Risk Management of Banking Book

Interest Rate Risk Management

Interest rate risks are the risks that cause losses to the banks' on-balance-sheet and off-balance-sheet businesses as a result of adverse movements in interest rates. The Bank's interest rate risks mainly arise from mismatching of maturity dates and re-pricing dates of interest rate-sensitive assets and liabilities. The objective of the Bank's interest rate risk management is to maximize the net interest income within a tolerable scope of interest rate risks based on the Bank's risk management and risk preference.

The Bank has adopted a series of key indicators for interest rate risk management, criteria for interest rate exposure sensitivity analysis as well as guidelines on interest rate risk management. Interest rate risk analysis includes the evaluation of gap between the Bank's interest rate-sensitive assets and liabilities and the exposure sensitivity analysis upon interest rate changes. In 2007, the Bank successfully launched the interest rate management system (Phase 1) and conducted inspections on the interest rates pricing of RMB and foreign currency products to enhance interest rate risk measurement and monitoring.

Currency Risk Management

Currency risks are the risks of loss arising from adverse movement of exchange rate based on the foreign exchange exposures arising from the currency structures mismatch between foreign exchange assets and liabilities, as well as those exposures generated in foreign exchange derivative transactions. The Bank's objective of currency risk management is to control the impact of exchange rate fluctuations on the Bank's financial status and shareholders' equity within a tolerable extent and mitigate currency risks through limit management and risk hedging.

The Bank conducts quarterly sensitivity analysis of currency risks and submits the currency risk exposure report to the Risk Management Committee. In 2007, the Bank made further efforts to establish and enhance the system of currency risk identification, measurement, monitoring, control and reporting. Besides, the Bank categorized the currency risks and clearly defined the sources and control measures of currency risks. The Bank further defined the duties and responsibilities of various departments, established the segregation of duties and processes for the management of currency risks at the front, middle and back offices, and determined the principles and approaches for the measurement of currency risks.

Interest Rate Risk Analysis

Since 2007, Chinese government has established a number of macro-economic regulatory measures and raised the benchmark interest rates of deposits and loans. Meanwhile, there is an increase in the customers' demand for medium and long-term loans with fixed interest rate and capped floating rate in order to lock in risks and reduce financing costs. PBOC has launched various measures to regulate liquidity, resulting in intensified fluctuations of interest rates in the market.

The accumulated negative exposure of interest rate sensitivity with a term of less than one year was RMB1,189,740 million at the end of 2007. Therefore, the Bank has adjusted the period of loan re-pricing to narrow the exposure of interest rate risks and limit the re-pricing period of most credit assets within one year so as to offset the negative impact caused by the rising cycle of interest rates. At the end of 2007, the structure of the Bank's consolidated balance sheet based on the contracted re-pricing date or maturity date (whichever is earlier) is shown in the following table.

INTEREST RATE SENSITIVITY EXPOSURE

In RMB millions

	Less than 3 months	3 months–1 year	1–5 years	Over 5 years
At 31 December 2007	(2,725,495)	1,535,755	1,273,400	465,411
At 31 December 2006	(2,331,193)	1,657,555	821,055	357,554

Note: Please refer to "Note 48(c)(ii) to the Financial Statements: Interest Rate Risk" for details.

The following table sets forth the sensitivity of the Bank's interest income and equity to the potential reasonable interest rate movements when other parameters kept unchanged.

INTEREST RATE SENSITIVITY ANALYSIS

In RMB millions

	At 31 December 2007		At 31 December 2006	
Movements of interest rate basis points	Movements in net interest income	Movements in equity	Movements in net interest income	Movements in equity
Increase of 100 basis points	(18,160)	(9,213)	(14,134)	(7,928)
Decrease of 100 basis points	18,160	9,452	14,134	8,140

Note: Please refer to "Note 48(c)(ii) to the Financial Statements: Interest Rate Risk" for details.

The analysis of interest rate sensitivity is based on the interest rate profile of the Group as of the reporting date, and analyzes the impact of interest rate movement on short-term (less than one year) net interest income of the Bank, assuming the overall interest rate in the market moves in parallel. The projections above also assume that interest rates of all maturities move by same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remaining unchanged. This effect, however, does not incorporate actions that would be taken by management to mitigate the impact of this interest rate risk.

Currency Risk Analysis

Risk of depreciation of USD against RMB is the major risk among the Bank's all foreign exchange exposure. In 2007, RMB continued to appreciate against USD with an accumulated appreciation margin of 6.90% within one year. Since 21 May 2007, PBOC has expanded the daily floating range of the trading price of RMB against USD from 0.3% to 0.5% on the inter-bank spot exchange market, which resulted in strengthened elasticity of RMB exchange rate. In the first half of 2007, the Bank completed settlement of foreign exchange funds from the IPO and the foreign exchange profits of 2006. At the end of 2007, the Bank's net exposure of foreign exchange is shown as below:

FOREIGN EXCHANGE EXPOSURE OF THE GROUP

In RMB/USD millions

	At 31 December 2007		At 31 December 2006	
	RMB	USD Equivalent	RMB	USD Equivalent
Total exposure of on-balance-sheet foreign exchange, net	342,009	46,821	243,523	31,186
Total exposure of off-balance-sheet foreign exchange, net	(204,323)	(27,972)	(127,780)	(16,364)
Total foreign exchange exposure, net(1)	137,686	18,849	115,743	14,822
Minus: Foreign currency denominated net investment in foreign operations(2)	16,541	2,264	14,714	1,884
Net foreign exchange exposure (with deduction of the Foreign currency denominated net investment in foreign operations)	121,145	16,585	101,029	12,938

Notes: (1) Net foreign exchange exposure of the Group reflects the net amount of on-balance-sheet and off-balance-sheet foreign exchange exposure of the Group.

(2) Should the functional currency of an overseas operating entity is not Renminbi, the net investment of the Group in the overseas operating entity are the net assets denominated in foreign currency held by the overseas subsidiaries or branches of the Bank, and the long-term equity investment of the Bank to associated companies. For the purpose of preparing the consolidated financial statements, the difference arising from retranslation of operating results and financial position of the overseas operating entity into Renminbi are recognized under "Foreign currencies translation" as an equity item. The translation difference did not affect the net profit of the Group.

The gap between foreign exchange loans and deposits continuously enlarged due to constant appreciation of RMB in 2007, which resulted in the expansion of foreign exchange exposure of the Bank in the year.

For the impact of reasonable potential movements in the exchange rate of foreign currency against Renminbi on the profit before tax and equity, please see the following table:

EXCHANGE RATE SENSITIVITY ANALYSIS

In RMB millions

		Impact on Profits before Tax		Impact on Equity	
Currency	Increase/decrease of exchange rate of foreign currency against Renminbi	At 31 December 2007	At 31 December 2006	At 31 December 2007	At 31 December 2006
USD	+1%	+999	+889	+126	+29
	–1%	–999	–889	–126	–29
HKD	+1%	–151	+161	–24	+25
	–1%	+151	–161	+24	–25

The analysis of sensitivity to exchange rate movement is based on the assumption that the foreign exchange exposure of the Bank at the end of the year remains unchanged. The analysis does not take into consideration of any risk management activities the management might take to mitigate the impact the currency risk.

Liquidity Risk Management

Liquidity risks are the risks when the Bank fails to raise the funds to meet the present or future demand of customer or counterparties at a reasonable cost. The Bank's potential liquidity risks include the customers' premature and collective withdrawal, overdue payment of the debtors, unmatched asset-liability maturity structure and increasing difficulties in realization of assets, and require daily management of its working capital positions.

The Bank's objective is to establish a scientific liquidity risk management mechanism and process in order to meet the requirements of the Bank's business development and liquidity, and to balance between fund sufficiency and efficiency.

The Bank actively analyses the trends of the Bank's fund flow and the market changes, and makes the most of market opportunities through fund liquidity plans and inter bank financing strategies so as to maximize financing return, with the Bank's fund payment under effective guarantee.

Liquidity Management

The Bank has adopted integrated management on liquidity by centralizing the funds from tier-two branches and sub-branches to tier-one branches for deployment and management, and provided guidance for the branches to adjust the term structure of their assets and liabilities via the internal fund transfer and pricing mechanism. Moreover, the Bank has also adopted a number of measures to actively manage the Bank's liquidity, including: (1) conducting daily monitoring on the Bank's liquidity positions with a series of liquidity parameters and reporting to the Assets-Liabilities Management Committee about the findings on a quarterly basis; (2) conducting continuing monitoring and adjustment of the Bank's cash, cash deposited at PBOC and other banks as well as the amount and composition of other interest bearing assets to meet the Bank's anticipated liquidity requirement in the future; (3) monitoring the current ratio to meet regulatory and internal requirements and evaluating the Bank's liquidity requirements through stress testing; and (4) setting up an early warning system and a contingency plan for liquidity risks.

In 2007, the Bank made continuing efforts to enhance the liquidity management mechanism, formulate management measures for liquidity risks, improve the system for centralized fund allocation, develop fund flow report project and strengthen the monitoring on fund flow, direction and frequency to improve the management of liquidity risks.

Liquidity Risk Analysis

In 2007, PBOC raised the statutory reserve ratio for deposits ten times in a row to 14.5% from 9% at the beginning, and issued central bank bills five times, which has moderately alleviated the situation of surplus liquidity. Expanded scale and accelerated frequency of new share issuance has resulted in structural changes in the Bank's customer deposits, including a significant diversification tendency in the residents' savings deposits, rapid increase of institutional and peer deposits, intensified fluctuations in fund positions and an obvious tendency toward demand deposits in customer deposits.

Facing the tight monetary policy and liquidity risks caused by the issuance of new shares, the Bank has taken the following counter-measures: (1) The Bank has flexibly adjusted the tiered liquidity reserve and maintained appropriate liquidity positions; (2) The Bank has adjusted the transfer price of internal funds on an irregular basis as per the interest rate of the external market and changes in the loans and deposits level of the branches, in order to adjust the scale and term structure of assets and liabilities and prevent the potential mismatch of assets and liabilities.

The Bank evaluates its liquidity risk profile via liquidity exposure analysis. At the end of 2007, the Bank's liquidity exposures within the period of three months or less were negative while the remaining exposures were positive. In the structure of customer deposits by remaining maturity, demand deposits and matured time deposits accounted for 55.3% of total deposits, thus resulting in a high proportion of demand liabilities amongst total liabilities, which explained why the exposures in this period were negative.

At the end of 2007, the maturity date composition of the Group's consolidated balance sheet is shown as follows:

LIQUIDITY EXPOSURE ANALYSIS

In RMB millions

	At the end of the Reporting Period							
	Overdue/ timely repayment	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	Over 5 years	Open	Total
Net liquidity in 2007	(4,426,085)	(362,557)	(52,450)	64,277	2,487,308	1,664,672	1,168,511	543,676
Net liquidity in 2006	(3,512,010)	(251,766)	71,770	241,758	1,816,060	1,296,693	808,496	471,001

Note: See "Note 48(b) to the Financial Statements: Liquidity Risks" for details.

Liquidity Supervision Indicator

At the end of 2007, the Bank met regulatory requirements in terms of the indicators that reflect the Bank's liquidity profile; see the "Financial Highlights: Other Financial Indicators" for detailed information.

Operational Risk Management and Anti-Money Laundering

Operational Risk Management

Operational risks are the risks that cause losses through imperfect or faulty internal procedures, employees and IT systems as well as external incidents. The major operational risks faced by the Bank include internal fraud; external fraud; employment system and workplace safety; clients , products and business practice; damage to physical assets; IT system risks; execution, delivery and process management.

In 2007, the Bank continued to improve the framework, institutional processes and technical methods for operational risk management and achieved steady improvement in risk management. Moreover, the Bank has revised the framework of operational risk management, refined the policy on collection of loss events statistics and brought the inspection and prevention of fraud cases as routine control into the scope of risk management. The Bank has also strengthened risk identification and monitoring and continued to improve risk analysis and alert capacity. The Bank has also resorted to security rating, encryption and information security warning, etc. to improve the security of the information system and enhance risk controllability. The Bank is now making active explorations on establishing a brand-new standardized audit methodology and using the findings of off-site data analysis to conduct multi-dimensional and multi-area inspection for the purpose of controlling the loss ratio of the Bank's operational risk at a lower level.

Anti-Money Laundering

The Bank has complied with PRC laws and regulations on anti-money laundering and made active effort to push forward the institutional and organizational set up of anti-money laundering. The Bank has formulated the regulations on anti-money laundering and the reporting and management measures for large-sum transactions and suspicious transactions, which cover key areas of anti-money laundering measures, and standardised the reporting processes and the corresponding management systems. The Bank has adjusted the department that leads the anti-money laundering effort, added members to the leader team and professional team for anti-money laundering and unified the data reporting basis. The Bank has submitted reports on large-sum and suspicious transactions according to the requirements of PBOC, presented offsite regulatory statements and special reports on suspicious transactions, organized and carried out onsite inspections on anti-money laundering, facilitated communications and coordination with regulatory institutions and provided assistance for the law enforcement departments to crack down on money laundering. None of the domestic and overseas branches and their employees was found or suspected to be involved in money laundering and financing terrorism during the report period.

CAPITAL MANAGEMENT

The Bank implements a comprehensive capital management system, including measurement, planning, allocation, monitoring, evaluation, operation and other management activities with capital as target and instrument, for capital adequacy ratio management, economic capital management, book capital management and aggregate capital and structure management. The objective of capital management is to improve capital utilization efficiency, restrict the expansion of risks and maximize the capital return for shareholders on a stable and sustainable basis whilst maintaining capital sufficiency.

In order to achieve the objectives above, the Bank carries out the following strategies for capital management:

(1) Establishing a reasonable capital adequacy objective to restrict the expansion of risk assets under the condition that the capital adequacy ratio meets the regulatory requirements;

(2) Taking into consideration the risks, income, scale and growth with economic capital as the theme, optimizing resource allocation in order to meet the shareholders' requirements of investment return and capital coverage for risks;

(3) Making reasonable use of various capital instruments, optimizing the aggregate amount and structures of capital and reducing financing costs.

In 2007, the Bank worked out the annual capital management plan with regard to its risk preference and business development and realized the allocation and dynamic monitoring of capital in various risk areas, regions and products via the economic capital allocation system, restricted the expansion of risk scale, optimized and guided resource allocation, and achieved the objectives of capital return and capital adequacy ratio.

Allocation and Management of Economic Capital

The Bank has used economic capital management instruments since 2005. Economic capital management includes three major procedures: measurement, allocation and evaluation. Economic capital indicators include economic capital (EC), risk adjusted return on capital (RAROC) and economic value-added (EVA).

In 2007, the Bank's economic capital management was comprehensively applied in various aspects, including credit resource allocation, operation planning, expense allocation, performance assessment for branch presidents, limit management, product pricing and etc., which has improved the Bank's efficiency of capital utilization and brought into full display the restricting and guiding functions of economic capital for business expansion and risk scale. The leading role of economic capital allocation data and assessment indicators has become prominent.

Capital Adequacy Ratio

The Bank calculated the capital adequacy ratio and core capital adequacy ratio in accordance with the "Regulations Governing Capital Adequacy of Commercial Banks" and the "Notice on Calculation Table and Calculation Explanation on the Commercial Banks' Market Risk Capital Requirement", as well as other regulatory requirements.

At the end of 2007, the Bank's capital adequacy ratio and core capital adequacy ratio were 13.09% and 10.99%, respectively, representing a decrease of 0.96 and 1.24 percentage points, respectively, and both complied with the regulatory requirements. The decrease was mainly attributable to the rapid development of the Bank's businesses and an increase in risk-weighted assets. Another reason for the decrease in core capital adequacy ratio was the Bank's adoption of the "Notice on the Relevant Issues on Calculating the Capital Adequacy Ratio After Banks and Financial Institutions Implementing the 'Accounting Standards for Business Enterprises'" issued by CBRC in 2007, which amended the calculation of the core capital.

CAPITAL ADEQUACY RATIO

In RMB million, except for percentages

Item	At 31 December 2007	At 31 December 2006
Core capital:		
Share capital	334,019	334,019
Reserves	148,631	125,523
Minority interests	5,305	4,537
Total core capital	**487,955**	**464,079**
Supplementary capital:		
General provision for doubtful debts	47,979	33,645
Reserve for net change in the fair value of available-for-sale investments	—	1,005
Subordinated bonds	35,000	35,000
Other supplementary capital	11,669	—
Total supplementary capital	**94,648**	**69,650**
Total capital base before deductions	**582,603**	**533,729**
Deductions:		
Goodwill	1,878	1,195
Unconsolidated equity investments	3,984	1,729
Net capital base	**576,741**	**530,805**
Core capital base after deductions	**484,085**	**462,019**
Risk weighted assets and market risk capital adjustment	**4,405,345**	**3,779,170**
Core capital adequacy ratio	**10.99%**	**12.23%**
Capital adequacy ratio	**13.09%**	**14.05%**

Note: Regulatory indicators are calculated according to the then prevailing regulatory requirements and accounting standards, no restatement was made to the comparative figures.

SOCIAL RESPONSIBILITIES

While pursuing performance growth and rapid development, the Bank also focused on the impact of its corporate behavior on social development. The Bank combined its economic responsibilities with social responsibilities for the purpose of developing the Bank into a respectable enterprise and establishing a comprehensively coordinated and sustainable development structure. In 2007, the Bank was widely recognized for its efforts in fulfilling its social responsibilities and was awarded as the "Most Respectable Enterprise in China" in the sixth selection campaign jointly hosted by Economic Observer and the Management Case Research Center of Peking University. The Bank was also awarded as the "Valuable Corporate Social Responsibility Model" by the Seventh Session of the Millennium Management Forum of China.

Green Bank

The Bank strictly upheld environmental protection compliance in the granting of credit and comprehensively constructed the "Green Credit" bank as a long-term business development strategy and strived to build a model bank of "Green Credit". The Bank rejected the projects that violate state environmental protection policies and those which may have significant adverse impact on the environment during the examination of all financing categories and customers. The Bank has withdrawn some of the customers from high energy consumption and high pollution industries including iron and steel, iron alloy, cement, electrolytic aluminum, copper smelting, calcium carbide, coke and thermal power generation. At the same time, the Bank provided special support for pilot recycling enterprises, projects of comprehensive resource utilization in the pilot recycling program, projects of new energy development and utilization for energy conservation and consumption reduction, as well as enterprises and projects that supported and facilitated the improvement of residential and ecological environment. The Bank has established an effective mechanism for the daily communication and supervision of enterprises' environmental protection information during the post-loan period, in order to rectify fund usage that violates environmental protection laws and policies and to guarantee credit fund projects and customers complied with China's environmental protection requirements.

Charity Bank

Promotion of Targeted Poverty Alleviation

During the reporting period, the Bank continued to promote poverty alleviation and development through the provision of scientific education, hygiene services and disaster relief. The Bank donated RMB2.36 million to Wanyuan City, Nanjiang County and Tongjiang County of Sichuan Province to support and award college students in poverty as well as outstanding teachers in rural areas. The Bank also participated in the "Eternal Love and Eyesight Restoration" action of the China Welfare Fund for the Handicapped, which supported the cataract surgery of 1,000 financially underprivileged patients. In addition, the Bank provided support for the reconstruction of the flood-stricken areas.

Support for the Development of Education and Sports

The Bank donated RMB2 million for the construction and the exhibition of the China Pavilion project of the Shanghai World Expo and donated RMB1 million to the 2007 Summer Paralympics in Shanghai to demonstrate its care and support for the handicapped.

The Bank continued to provide RMB1 million of scholarship funds to Peking University to award outstanding teachers and students as well as special topical studies. The Bank also made donations for the Hope Project education fund of Yunnan Province and Guo Shoujiu Financial Hope Primary School in Hong'an County of Hubei Province so as to improve the local education conditions. Moreover, the Bank made donations for the maintenance and protection project of the former sites of Gutian Meeting in Longyan of Fujian Province and the construction project of the South Ring Scenery Line of Shaoshan Mountain in Hunan Province.

Support Charitable Activities and Provide Disaster Relief

The Bank donated RMB1.2 million to the "Love Action" campaign in Jiaxing City, the China Charity Federation and other charitable organizations to support the development of charitable activities. The Bank also made active response regarding disaster relief and made donations to the rescue efforts for the mine disaster in Fushun Mining Group.

Harmonious Bank

The Bank launched the charitable donations campaign for employees with economic difficulties and has preliminarily established a long-term mechanism to aid employees with severe economic difficulties. The Bank has also placed emphasis on employees' physical and psychological health by holding various health seminars and psychological counseling activities and introducing the Employee Aid Plan (EAP) to reduce and alleviate the employees' pressure from work and life. The Bank has also considered the requirements of human body engineering in the construction of its operating outlets in order to reduce the employees' work load.

Creditworthy Bank

The Bank has actively strengthened the development of a compliance culture to safeguard the security of customers' property. The Bank has also vigorously established a strict and efficient internal control system, practised strict compliance and accountability system and enhanced the comprehensive reporting system for compliance management. The Bank actively fulfilled its anti-money laundering obligations as a financial institution and established a systematic and complete anti-money laundering work system within the Bank. The Bank earnestly planned for self-inspection and self-correction of improper transactions, and constructed a long-term mechanism for the prevention of commercial bribes through enhancing the systems and processes, strengthening hard constraints of technology and building the compliance culture.

Brand Bank

The Bank has devoted strenuous efforts to promote the "Quality Service Year" campaign, which continuously enhanced the Bank's brand influence. The Bank valued customer feedback and has preliminarily established a basic evaluation system regarding customer satisfaction. In addition, the Bank supervised and inspected the implementation capabilities of on-site services within the Bank, and promoted work contests and technical competition, which enhanced business development and service proficiency.

The Bank shall release its first Social Responsibility Report in 2008.

Quality Service Year Program

2007 witnessed the complete opening up of China's banking industry as well as the Bank's successful Initial Public Offering. The Bank has promoted the "Quality Service Year" campaign with the theme of "New ICBC, New Service and New Experience" so as to establish a brand new market image and facilitate constant improvement in its market competitiveness through service enhancement.

The Bank has upheld the principle of "customer orientation" and has effectively improved service efficiency, quality and proficiency through the implementation of business process reengineering, acceleration in the construction of distribution channels, continuous enrichment of its service team and innovation of financial services and products.

Service Process Reengineering

The Bank has initiated the program of "Personal Financial Business Process Reengineering" that involved 137 personal banking service processes, formulated detailed short-term, middle-term and long-term implementation plans, comprehensively integrated and optimized various service channels for personal financial business, established simple and easy-to-operate business processes, as well as diversified the functions and increased the ratio of off-counter transactions. The Bank has commenced to establish a centralized business and customer information processing center in the back office with an effort to simplify front office transactions and improve the processing efficiency via systematic bulk treatment. As for process reengineering of credit and corporate banking, the Bank has further integrated the procedures for credit rating and credit examination and approval, simplified the rating and authorization processes and built a comprehensive and intensive corporate marketing model to improve service efficiency.

Channel Construction

In 2007, the Bank allocated special funds to enhance the outlet layout planning, intensify the upgrading and renovation of physical outlets. As at the end of the year, the Bank had 1,112 VIP wealth management centers in total. At the same time, the Bank also vigorously developed convenient and expedite electronic banking service channels to meet customized demands. At the end of 2007, the Bank ranked first amongst the banks in China in terms of the number of ATM machines and personal customers of online banking. The transactions processed by the customers through electronic banking accounted for 37.2% of total transactions.

Construction of Account Manager Team

The Bank has exerted great efforts to strengthen service team construction by strengthening business training and has established a competent and high quality personal account manager team in order to improve the Bank's personal financial services level. At the end of 2007, the number of Associate Financial Planner (AFP) and Certified Financial Planner (CFP) in the Bank's personal account manager team reached 5,083 and 861, respectively, accounting for 27.2% and 38.1%, respectively, amongst all other financial institutions and ranked the first amongst the commercial banks in China.

Innovation of Financial Products

The Bank constantly innovated its financial products with reference to customer needs. In 2007, the Bank continued to inject capital, technology and human resources to promote independent innovation and launched a variety of new products and services on a timely basis to satisfy customers' needs. The Bank has also successfully launched new financial products and services, including electronic remittance, physical gold trading agency, centralized bank-futures transfer, overseas customers wealth management, new share subscription and domestic invoice financing. The Bank currently has the most comprehensive business categories and the greatest number of innovative products launched on an annual basis amongst commercial banks in China.

Material Legal Proceedings and Arbitration

ICBC is involved in legal proceedings in the ordinary course of business. Most of these legal proceedings involve enforcement claims initiated by the Bank to recover payment on NPL. Some legal proceedings were arisen from customer disputes. As at 31 December 2007, the amount of unresolved material legal proceedings which the Bank and/or its subsidiaries was/were defendant totaled RMB2,999 million. The Bank does not expect any material adverse effect on the Bank's business, financial position or operational results.

Shares in Other Listed Companies and Financial Enterprises Held by the Bank

SECURITIES INVESTMENT

S/N	Type	Stock code	Short stock name	Initial investment cost (RMB)	Shares held (10,000)	Book value at end of period (RMB)	Percentage of total securities investment at end of the period (%)	Gain/(loss) during the reporting period (RMB)
1	Stock	3988 (Hong Kong, China)	BOC	29,029,844	1,000	35,208,307	100	(4,681,956)
Other securities investment held as at the end of the period					—			
Gain/(loss) from sale of securities investment during the reporting period				—	—	—	—	
Total				**29,029,844**	**—**	**35,208,307**	**100**	**(4,681,956)**

Note: The share investment specified above is recognized as financial assets held for trading. The Bank held shares in Bank of China through its non-wholly-owned subsidiary, ICBC (Asia).

SHARES IN OTHER LISTED COMPANIES HELD BY THE BANK

Stock Code	Short stock name	Initial investment cost (RMB)	Percentage of the investee's total equities (%)	Book value at end of the period (RMB)	Gain/(loss) during the reporting period[2] (RMB)	Change in owner's equity during the reporting period (RMB)	Accounting item	Source of shares
966 (Hong Kong, China)	CHINA INSURANCE	346,167,829	6.89	1,971,329,542	—	1,020,276,142	Available-for-sale financial assets	Purchase from market
601998	CNCB	149,999,600	0.07	262,499,300	—	112,499,700	Available-for-sale financial assets	Purchase from market
1688 (Hong Kong, China)	ALIBABA	131,782,620	0.20	264,332,169	—	136,286,333	Available-for-sale financial assets	Purchase from market
600744	HHEP	30,000,000	4.19	240,997,316	3,579,170	97,306,900	Available-for-sale financial assets	Consolidation with trust investment company
001740 (Korea)	SK Networks	10,063,627	0.10	38,688,962	—	(7,645,418)	Available-for-sale financial assets	Debt-Equity swap
601600	CHALCO	10,000,000	0.07	361,675,041	1,055,918	351,053,687	Available-for-sale financial assets	Consolidation with trust investment company
600216	ZMC	3,513,203	1.06	92,926,000	143,860	84,987,342	Available-for-sale financial assets	Consolidation with trust investment company
600642	Shenergy	2,800,000	0.05	26,415,000	—	21,246,075	Available-for-sale financial assets	Consolidation with trust investment company
000430	ZTDC	2,000,000	3.33	67,993,200	—	60,330,927	Available-for-sale financial assets	Consolidation with trust investment company
600236	GGEP	2,000,000	0.12	14,806,839	503,610	12,806,839	Available-for-sale financial assets	Consolidation with trust investment company
600252	GUANGXI WUZHOU ZHONGHENG GROUP CO., LTD	2,000,000	1.22	59,233,146	—	57,233,146	Available-for-sale financial assets	Consolidation with trust investment company
4642 (Malaysia)	YHS	500,091	0.02	92,792	5,902	(3,181)	Available-for-sale financial assets	Purchase from market
532 (Singapore)	EQUATION CORP LTD	152,816	<0.01	20,274	—	(19,187)	Available-for-sale financial assets	Purchase from market
000886	HEC	112,500	0.02	938,358	—	716,977	Available-for-sale financial assets	Consolidation with trust investment company

Notes: (1) The Bank held shares in CHINA INSURANCE and ALIBABA through its non-wholly-owned subsidiary, ICBC (Asia), held shares in SK Networks through its Seoul Branch and held shares in YHS and Equation Corp Ltd through its Singapore Branch.

(2) Refers to the dividend income.

SHARES IN UNLISTED FINANCIAL ENTERPRISES HELD BY THE BANK

Company	Initial investment cost (RMB)	Shares held (10,000)	Shareholding Percentage (%)	Book value at end of the period (RMB) (CASs)	Book value at end of the period (RMB) (IFRSs)	Gain/loss during the reporting period[2] (RMB)	Change in owner's equity during the reporting period (RMB)	Accounting item	Source of share
Tai Ping Insurance Company Ltd	172,585,678	N/A	9.58	82,725,957	82,725,957	—	—	Available-for-sale financial assets	Investment of self-owned capital
Xiamen International Bank	102,301,500	N/A	18.75	102,301,500	102,301,500	—	—	Available-for-sale financial assets	Investment of self-owned capital
China UnionPay Co., Ltd	90,000,000	9,000.00	5.45	90,000,000	90,000,000	2,970,000	—	Available-for-sale financial assets	Investment of self-owned capital
Guangdong Development Bank	52,465,475	2,379.22	0.21	52,465,475	52,465,475	—	—	Available-for-sale financial assets	Investment of self-owned capital
China Ping An Insurance (HK) Co., Ltd	14,134,025	27.50	25.00	39,571,256	39,571,256	7,153,882	—	Long-term equity investment	Investment of self-owned capital
Yueyang City Commercial Bank	3,500,000	353.64	1.59	3,617,582	3,500,000	—	—	Available-for-sale financial assets	Investment of self-owned capital
Joint Electronic Teller Services Limited	1,950,004	0.0016	0.02	1,874,281	1,874,281	1,835,327	—	Available-for-sale financial assets	Investment of self-owned capital
Guilin City Commercial Bank	420,000	113.61	0.51	1,289,934	420,000	—	—	Available-for-sale financial assets	Investment of self-owned capital
Nanchang City Commercial Bank	300,000	39.00	0.03	522,646	390,000	—	—	Available-for-sale financial assets	Investment of self-owned capital
Total	**437,656,682**	**—**	**—**	**374,368,631**	**373,248,469**	**11,959,209**	**—**	**—**	**—**

Notes: (1) The Bank held shares in Tai Ping Insurance Company Ltd, China Ping An Insurance (HK) Co., Ltd and China UnionPay Co., Ltd through its non-wholly-owned subsidiary, ICBC (Asia).

(2) Refers to dividend income and investment income from associates.

(3) The Bank was approved by CBRC on 3 August 2007 to transfer 20.83% shareholding in Qingdao International Bank to Hana Bank, and the parties completed the final delivery of equities and consideration on 16 August 2007.

PURCHASE AND SALE OF SHARES IN OTHER LISTED COMPANIES

	Stock Name	Shares at beginning of the period	Shares purchased/ sold during the period	Shares at end of the period	Fund utilized (RMB)	Investment income generated (RMB)
Purchase	—	—	41,875,500	35,890,000	324,512,138	—
Sale	—	109,963,270	13,454,496	102,494,274	—	100,372,786

Material Asset Acquisition, Sale and Merger

Acquisition of 20% Shareholding in Standard Bank

The Bank adopted the "Proposal on the Acquisition of 20% Shareholding in Standard Bank Group Limited" at the 28th meeting of the first session of the Board of Directors held on 25 October 2007 and the Third Extraordinary General Meeting held on 13 December 2007, and obtained the approvals from the South African Reserve Bank and CBRC on 24 October 2007 and 23 January 2008, respectively, regarding the acquisition. In addition, the Bank has further obtained the approvals from other relevant regulatory institutions. Since all the conditions precedent were satisfied, the completion of the acquisition of shares in Standard Bank by the Bank took place on 3 March 2008. The Bank acquired 305,010,857 shares of Standard Bank by way of scheme of arrangement and subscription, representing 20% of the total issued share capital of Standard Bank. The total consideration paid by the Bank amounted to 36.7 billion Rand (equivalent to approximately RMB33.8 billion).

Standard Bank was incorporated in Port Elizabeth of South Africa in 1862, and was listed on JSE Securities Exchange, South Africa in 1970. Being the largest bank in Africa, Standard Bank owns a leading market position and an extensive organization network, and posts sound asset quality and financial results. The Bank's participation in Standard Bank is good for the improvement of international operation level, optimization of global resource allocation and diversification of the risk of business concentration in ICBC. ICBC expects that the transaction will produce positive effect upon the Bank's profit-making ability.

Acquisition of Shares in Seng Heng Bank

The Bank adopted the "Proposal on the Acquisition of Shares in Seng Heng Bank" at the 26th meeting of the first session of Board of Directors held on 29 August 2007 and the Second Extraordinary General Meeting held on 26 October 2007, and approved the acquisition of 119,900 ordinary shares, or 79.9333% of the total issued capital of Seng Heng Bank. The consideration amounted to approximately MOP4.68 billion. The Bank obtained the approvals from CBRC and Autoridade Monetariá De Macau on 14 January 2008 and 22 January 2008, respectively. The completion of the acquisition took place on 28 January 2008. The acquisition of the controlling stake of Seng Heng Bank gives the Bank a leading market position and scale in the Macau banking sector and also access to a large customer base, thereby allowing the Bank to benefit from the rapid economic growth of Macau.

Acquisition of Shares and Warrants Issued by ICBC (Asia)

The Bank adopted "The Proposal on the Bank's Acquisition of the Shares in ICBC (Asia) (the subsidiary of the Bank) held by Fortis Bank and the Warrants issued by ICBC (Asia)" at the 30th meeting of the first session of Board of Directors on 27 December 2007, and approved the acquisition of 100,913,330 ordinary shares and 11,212,592 warrants in ICBC (Asia) by the Bank from Fortis Bank at a consideration of approximately HKD1.92 billion. The completion of the acquisition took place on 24 January 2008. Upon the completion of the acquisition, the Bank holds approximately 71.21% of the entire issued share capital of ICBC (Asia), an increase of 8.23 percentage points compared with that before the acquisition.

Execution of Share Incentive Plan

The Fourth Extraordinary General Meeting of the Bank held on 31 July 2006 approved the share appreciation rights plan. As of end of the reporting period, the Bank did not grant any share appreciation right to any individuals or entities. Please see "Note 39 to the Financial Statements: Share Appreciation Right Plan" for details.

Material Related Party Transactions

During the reporting period, the Bank has not entered into any material related party transactions.

Material Contracts and Performance of Obligations thereunder

Material Trust, Sub-contract and Lease

During the reporting period, the Bank has not held on trust to a material extent or entered into any material sub-contract or lease arrangement in respect of assets of other corporations, and no other corporation has held on trust to a material extent or entered into any material sub-contract or lease arrangement in respect of the Bank's assets.

Material Guarantees

The provision of guarantees is one of the off-balance-sheet businesses in the ordinary course of business of the Bank. During the reporting period, the Bank did not have any material guarantees that need to be disclosed except for the financial guarantee services within the business scope as approved by PBOC.

Independent Non-executive Directors' Special Explanation and Independent Opinions on External Guarantee of the Bank

In accordance with CSRC's Circular Concerning Several Issues on Regulating Fund Transfers between Listed Companies and their Related Parties and External Guarantee of Listed Companies (ZH.J.F [2003] No. 56) and relevant provisions of SSE, the independent non-executive directors of the Bank reviewed the Bank's external guarantee on the principle of fairness, impartiality and objectivity, and hereby give their special explanation and opinions as follows: upon review, external guarantee provided by the Bank mainly focuses on issuance of letters of guarantee, and is one of the ordinary banking services within the business scope of the Bank as approved by PBOC and CBRC. As of 31 December 2007, the balance of letters of guarantee offered by the Bank totaled RMB191,748 million.

The Bank has always attached great importance to the management of risks arising from such business and formulated strict rules on the credit ratings of the entities to which the guarantee was provided and on the operation and review procedures of provision of guarantee services. In our opinion, risk control of the business of guarantee provision by the Bank has been effective. The Bank will continue to strengthen risk management on such service to ensure the steady improvement of performance of the Bank.

Leung Kam Chung, Antony, John L. Thornton, Qian Yingyi, Xu Shanda

Independent Non-executive Directors of Industrial and Commercial Bank of China Limited

Material Events Concerning Entrusting Other Persons for Cash Management or Entrusted Loans

No such matters concerning entrusting other persons for cash management or entrusted loan occurred in the Bank during the reporting period.

Commitments Made by the Bank or its Shareholders Holding 5% Shares or Above

The shareholders made no new commitments during the reporting period, and the commitments lasting to this reporting period is the same as that disclosed in the 2006 Annual Report. As of 31 December 2007, all commitments made by the shareholders were properly fulfilled.

Investigations, Administrative Penalties, Censures by CSRC; Public Reprimand by Stock Exchanges; and Sanctions Imposed by Other Regulatory and Judicial Authorities during the Reporting Period

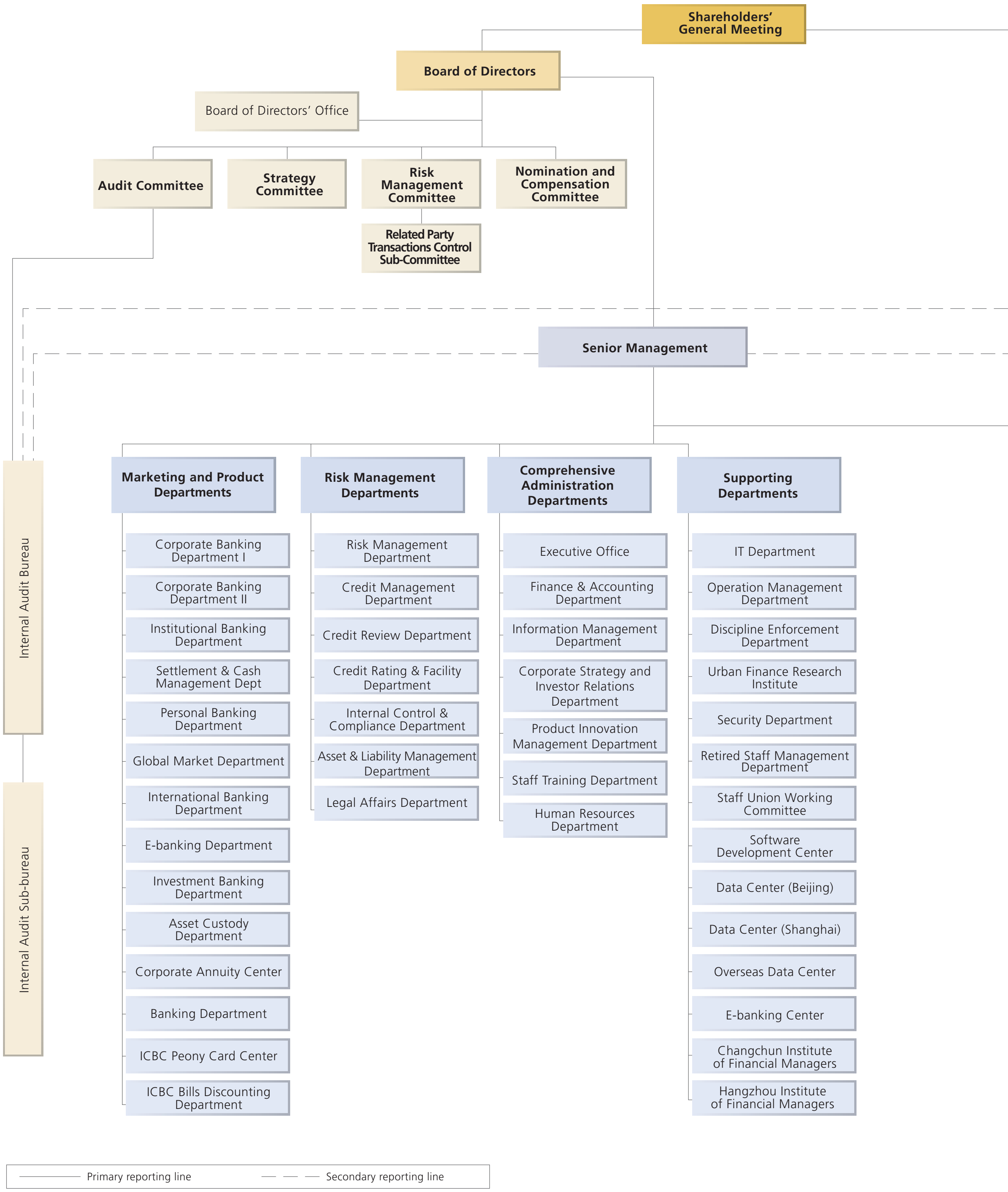
During the reporting period, neither ICBC nor any of its directors, supervisors and senior management members was subject to any investigation by competent authorities, compulsory enforcement of juridical and discipline departments, transfer to juridical department or pursuit of criminal responsibilities, investigation, administrative penalty or censure by CSRC, prohibition of securities market access, punishment by other administrative departments for improper personnel engagement or public reprimand by the stock exchanges. During the reporting period, the Bank accepted the onsite inspection of CBRC Beijing Office on the special corporate government enhancement program, during which the overall corporate government situation of ICBC was recognized and appreciated by the delegation. Relevant self-assessment report and rectification report have been published in the newspaper designated for information disclosure as well as the websites of SSE, SEHK and the Bank.

Other Major Events

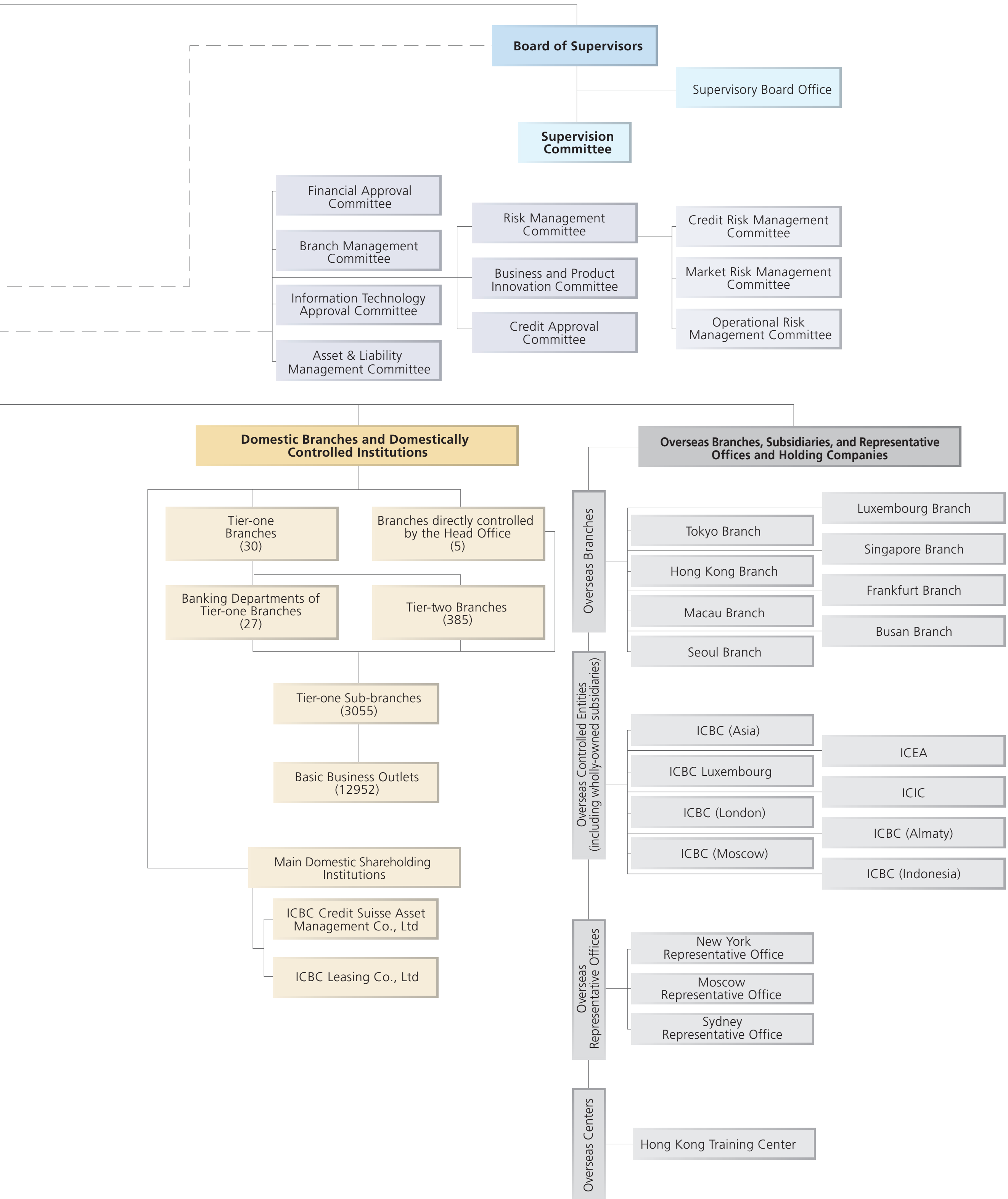
On 31 January 2008, ICBC was officially approved to establish Doha Branch and granted the operation license by the Qatar Finance Center Regulatory Authority.

For information on internal control, please refer to the "Corporate Governance Report — Internal Control".

Organizational Chart



Note: The above presents the organizational chart of the Bank in 2007. As of the date this Annual Report is disclosed, ICBC has completed the acquisition of Seng Heng Bank and Standard Bank and approved the establishment of the Doha Branch. Please refer to the section "Significant Events".


Board of Supervisors
Supervisory Board Office
Supervision Committee
Financial Approval Committee
Branch Management Committee
Information Technology Approval Committee
Asset & Liability Management Committee
Risk Management Committee
Business and Product Innovation Committee
Credit Approval Committee
Credit Risk Management Committee
Market Risk Management Committee
Operational Risk Management Committee
Domestic Branches and Domestically Controlled Institutions
Tier-one Branches (30)
Branches directly controlled by the Head Office (5)
Banking Departments of Tier-one Branches (27)
Tier-two Branches (385)
Tier-one Sub-branches (3055)
Basic Business Outlets (12952)
Main Domestic Shareholding Institutions
ICBC Credit Suisse Asset Management Co., Ltd
ICBC Leasing Co., Ltd
Overseas Branches, Subsidiaries, and Representative Offices and Holding Companies
Overseas Branches
Tokyo Branch
Hong Kong Branch
Macau Branch
Seoul Branch
Luxembourg Branch
Singapore Branch
Frankfurt Branch
Busan Branch
Overseas Controlled Entities (including wholly-owned subsidiaries)
ICBC (Asia)
ICBC Luxembourg
ICBC (London)
ICBC (Moscow)
ICEA
ICIC
ICBC (Almaty)
ICBC (Indonesia)
Overseas Representative Offices
New York Representative Office
Moscow Representative Office
Sydney Representative Office
Overseas Centers
Hong Kong Training Center

Independent Auditors' Report and Financial Statements

Independent Auditors' Report

ERNST & YOUNG

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

To the shareholders of Industrial and Commercial Bank of China Limited

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

We have audited the financial statements of Industrial and Commercial Bank of China Limited (the "Bank") and its subsidiaries (collectively referred to as the "Group") set out on pages 125 to 232, which comprise the consolidated and the company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank and of the Group as at 31 December 2007, and of the Group's financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
25 March 2008

Consolidated Income Statement

Year ended 31 December 2007
(In RMB millions, unless otherwise stated)

	Notes	2007	2006
Interest income	6	357,287	271,649
Interest expense	6	(132,822)	(108,107)
NET INTEREST INCOME	6	224,465	163,542
Fee and commission income	7	37,439	18,529
Fee and commission expense	7	(3,055)	(2,185)
NET FEE AND COMMISSION INCOME	7	34,384	16,344
Net trading income	8	1,351	2,138
Net loss on financial assets and liabilities designated at fair value through profit or loss	9	(1,415)	(1,999)
Net gain on financial investments	10	499	141
Other operating income/(loss), net	11	(3,255)	1,472
OPERATING INCOME		256,029	181,638
Operating expenses	12	(103,261)	(77,397)
Impairment losses on:			
Loans and advances to customers	26	(33,061)	(30,014)
Others	15	(4,345)	(2,175)
OPERATING PROFIT		115,362	72,052
Share of profits and losses of associates		16	13
PROFIT BEFORE TAX		115,378	72,065
Income tax expense	16	(33,124)	(22,185)
PROFIT FOR THE YEAR		82,254	49,880
Attributable to:			
Equity holders of the parent company		81,520	49,263
Minority interests		734	617
		82,254	49,880
DIVIDENDS	18		
Interim		—	18,593
Special		—	10,146
Proposed final		44,425	5,344
		44,425	34,083
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY — Basic and diluted (RMB yuan)	19	0.24	0.18

Consolidated Balance Sheet

31 December 2007
(In RMB millions, unless otherwise stated)

	Notes	2007	2006
ASSETS			
Cash and balances with central banks	20	1,142,346	703,657
Due from banks and other financial institutions	21	199,758	206,506
Financial assets held for trading	22	31,536	19,388
Financial assets designated at fair value through profit or loss	23	2,785	1,768
Derivative financial assets	24	22,769	10,539
Reverse repurchase agreements	25	75,880	39,218
Loans and advances to customers	26	3,957,542	3,533,978
Financial investments	27	3,073,007	2,839,642
Investments in associates	29	172	127
Property and equipment	30	80,266	82,403
Deferred income tax assets	31	5,833	—
Other assets	32	91,818	71,525
TOTAL ASSETS		**8,683,712**	**7,508,751**
LIABILITIES			
Financial liabilities designated at fair value through profit or loss	33	15,590	32,731
Derivative financial liabilities	24	7,127	2,613
Due to banks and other financial institutions	34	805,174	400,318
Repurchase agreements	35	193,508	48,610
Certificates of deposit		562	1,707
Due to customers	36	6,898,413	6,326,390
Income tax payable		33,668	16,386
Deferred income tax liabilities	31	337	1,449
Subordinated bonds	37	35,000	35,000
Other liabilities	38	150,657	172,546
TOTAL LIABILITIES		**8,140,036**	**7,037,750**
EQUITY			
Equity attributable to equity holders of the parent company			
Issued share capital	39	334,019	334,019
Reserves		158,204	126,286
Retained profits		46,148	6,159
		538,371	466,464
Minority interests		5,305	4,537
TOTAL EQUITY		**543,676**	**471,001**
TOTAL EQUITY AND LIABILITIES		**8,683,712**	**7,508,751**

Jiang Jianqing
Chairman

Yang Kaisheng
Vice Chairman and President

Gu Shu
General Manager of Finance and Accounting Department

Consolidated Statement of Changes in Equity

Year ended 31 December 2007
(In RMB millions, unless otherwise stated)

	Attributable to equity holders of the parent company										
		Reserves									
	Issued share capital	Capital reserve	Surplus reserves	General reserve	Investment revaluation reserve	Foreign currency translation reserve	Subtotal	Retained profits	Total	Minority interests	Total equity
Balance as at 1 January 2007	334,019	106,312	5,464	12,719	2,142	(351)	126,286	6,159	466,464	4,537	471,001
Net change in the fair value of available-for-sale investments	—	—	—	—	(5,758)	—	(5,758)	—	(5,758)	389	(5,369)
Reserve realised on disposal/ impairment of available-for-sale investments	—	—	—	—	2,227	—	2,227	—	2,227	65	2,292
Foreign currency translation	—	—	—	—	—	(738)	(738)	—	(738)	(369)	(1,107)
Total income and expense for the year recognised directly in equity	—	—	—	—	(3,531)	(738)	(4,269)	—	(4,269)	85	(4,184)
Profit for the year	—	—	—	—	—	—	—	81,520	81,520	734	82,254
Total income and expense for the year	—	—	—	—	(3,531)	(738)	(4,269)	81,520	77,251	819	78,070
Dividend — 2006 final (note 18)	—	—	—	—	—	—	—	(5,344)	(5,344)	—	(5,344)
Appropriation to surplus reserves (i)	—	—	8,072	—	—	—	8,072	(8,072)	—	—	—
Appropriation to general reserve (ii)	—	—	—	28,115	—	—	28,115	(28,115)	—	—	—
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	9	9
Change in shareholdings in a subsidiary	—	—	—	—	—	—	—	—	—	338	338
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	—	(398)	(398)
Balance as at 31 December 2007	334,019	106,312	13,536	40,834	(1,389)	(1,089)	158,204	46,148	538,371	5,305	543,676

(i) Includes the appropriation made by overseas branches in the amount of RMB7 million in aggregate.
(ii) Includes the appropriation made by a subsidiary in the amount of RMB33 million.

(In RMB millions, unless otherwise stated)

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

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

Consolidated Cash Flow Statement

Year ended 31 December 2007
(In RMB millions, unless otherwise stated)

	Notes	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		115,378	72,065
Adjustments for:			
Share of profits and losses of associates		(16)	(13)
Depreciation	12	8,318	9,622
Amortisation	12	1,174	1,106
Amortisation of financial investments		(13,033)	(11,052)
Impairment losses on loans and advances to customers	26	33,061	30,014
Impairment losses on assets other than loans and advances to customers	15	4,345	2,175
Unrealised foreign exchange difference		9,086	3,413
Interest expense on subordinated bonds	6	1,181	1,133
Accretion of impairment provision discount	6	(1,430)	(1,890)
Gain on disposal of available-for-sale securities, net	10	(425)	(113)
Net trading income on equity investments	8	(4)	—
Net gain on disposal of property and equipment and other assets (other than repossessed assets)		(678)	(328)
Dividend income	10	(74)	(28)
		156,883	106,104
Net decrease/(increase) in operating assets:			
Due from central banks		(422,734)	(143,369)
Due from banks and other financial institutions		16,753	(11,564)
Financial assets held for trading		(12,235)	(2,768)
Financial assets designated at fair value through profit or loss		(974)	(414)
Reverse repurchase agreements		(37,500)	(20,994)
Loans and advances to customers		(475,760)	(371,658)
Other assets		(16,739)	3,410
		(949,189)	(547,357)
Net increase/(decrease) in operating liabilities:			
Financial liabilities designated at fair value through profit or loss		(16,559)	(12,570)
Due to banks and other financial institutions		407,331	167,408
Repurchase agreements		146,522	16,309
Certificates of deposit		(1,145)	113
Due to customers		585,368	632,015
Other liabilities		(11,682)	40,664
		1,109,835	843,939
Net cash inflow from operating activities before tax		317,529	402,686
Income tax paid		(21,400)	(20,415)
Net cash inflow from operating activities		296,129	382,271

(In RMB millions, unless otherwise stated)

	Notes	2007	2006
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment and other assets		(9,385)	(6,607)
Proceeds from disposal of property and equipment and other assets (other than repossessed assets)		2,823	1,522
Purchases of financial investments		(1,455,833)	(1,623,898)
Proceeds from sale and redemption of financial investments		1,217,425	1,085,101
Acquisition of a subsidiary	41(a)	144	—
Acquisition of an associate		(134)	—
Proceeds from disposal of an associate		94	—
Dividend received		74	34
Net cash outflow from investing activities		(244,792)	(543,848)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		—	188,676
Share issue expenses		—	(2,994)
Interest paid on subordinated bonds		(1,205)	(1,108)
Dividends paid on ordinary shares		(15,490)	(22,130)
Dividends paid to minority shareholders		(398)	(260)
Net cash inflow/(outflow) from financing activities		(17,093)	162,184
NET INCREASE IN CASH AND CASH EQUIVALENTS		34,244	607
Cash and cash equivalents at beginning of the year		275,360	277,212
Effect of exchange rate changes on cash and cash equivalents		(7,917)	(2,459)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	41(b)	301,687	275,360
NET CASH INFLOW FROM OPERATING ACTIVITIES INCLUDES:			
Interest received		328,121	259,714
Interest paid		(119,736)	(95,703)

Balance Sheet

31 December 2007
(In RMB millions, unless otherwise stated)

	Notes	2007	2006
ASSETS			
Cash and balances with central banks	20	1,141,461	703,245
Due from banks and other financial institutions	21	174,997	169,454
Financial assets held for trading	22	31,485	19,215
Financial assets designated at fair value through profit or loss	23	1,142	173
Derivative financial assets	24	22,358	10,364
Reverse repurchase agreements	25	75,880	39,218
Loans and advances to customers	26	3,838,922	3,454,432
Financial investments	27	3,061,504	2,835,013
Investments in subsidiaries	28	12,371	7,260
Investment in an associate	29	—	74
Property and equipment	30	79,986	82,123
Deferred income tax assets	31	5,811	—
Other assets	32	86,453	68,077
TOTAL ASSETS		**8,532,370**	**7,388,648**
LIABILITIES			
Financial liabilities designated at fair value through profit or loss	33	10,278	24,632
Derivative financial liabilities	24	6,592	2,382
Due to banks and other financial institutions	34	799,013	398,573
Repurchase agreements	35	195,565	49,119
Due to customers	36	6,769,606	6,226,771
Income tax payable		33,493	16,176
Deferred income tax liabilities	31	—	1,327
Subordinated bonds	37	35,000	35,000
Other liabilities	38	146,804	170,078
TOTAL LIABILITIES		**7,996,351**	**6,924,058**
EQUITY			
Issued share capital	39	334,019	334,019
Reserves	40	156,866	124,872
Retained profits	40	45,134	5,699
TOTAL EQUITY		**536,019**	**464,590**
TOTAL EQUITY AND LIABILITIES		**8,532,370**	**7,388,648**

Jiang Jianqing
Chairman

Yang Kaisheng
Vice Chairman and President

Gu Shu
General Manager of Finance and Accounting Department

1. CORPORATE INFORMATION

Industrial and Commercial Bank of China Limited (the "Bank") was a wholly-state-owned commercial bank founded on 1 January 1984. Its establishment was authorised by the State Council and the People's Bank of China (the "PBOC") of the People's Republic of China (the "PRC"). In 2006, certain issued shares of the Bank were listed on both The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange. The registered office of the Bank is located at No. 55 Fuxingmennei Avenue, Xicheng District, Beijing, the PRC.

As at 31 December 2007, the Bank had established domestic branches in 35 provinces, autonomous regions and municipalities in Mainland China, and 18 subsidiaries and overseas branches. The Bank and its subsidiaries are collectively referred to as the Group. Particulars of the Bank's principal subsidiaries are set out in note 28 to the financial statements.

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

2.1 BASIS OF PREPARATION

Statement of compliance

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

Basis of consolidation

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

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where there is a loss of control in a subsidiary, the consolidated income statement includes the result of that subsidiary for the part of the reporting period during which the Bank has control. All intra-group balances, transactions, incomes and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

The acquisition of a subsidiary during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated income statement, and within equity in the consolidated balance sheet separately from the equity attributable to equity holders of the parent company. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following new and revised IFRSs and IFRIC interpretations have been adopted for the first time for the current year's financial statements:

IFRS 7	Financial Instruments: Disclosures
IAS 1 Amendment	Capital Disclosures
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

The principal effects of adopting these new and revised IFRSs and IFRIC interpretations are as follows:

The Group has adopted IFRS 7 in these financial statements, which requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. There has been no effect on the financial position or results of operations of the Group.

IAS 1 Amendment has affected the disclosures about the qualitative information about the Bank's objectives, policies and processes for managing capital; quantitative data about what the Bank regards as capital; and compliance with any capital requirements and the consequences of any non-compliance. These new disclosures are included in note 48(d) to the financial statements.

The adoption of IFRIC 8, 9 and 10 has had no material impact on these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Subsidiaries

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

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

(2) Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

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

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

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

(3) Foreign currency translation

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

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

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

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

(4) Financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial assets.

Measurement of fair value

The fair value of financial instruments traded in active markets at the balance sheet date is based on its quoted market price or dealer price quotation (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation models.

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a "Day 1" profit) in "Net trading income". In cases where data which is not observable is used, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

Financial assets or financial liabilities held for trading

Financial assets or financial liabilities held for trading are recorded in the balance sheet at fair value. Changes in fair value are recognised in "Net trading income". Interest and dividend income or expense are recorded in "Net trading income" according to the terms of the contract, or when the right to the payment has been established.

Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Financial assets held for trading mainly includes debt securities and equity investments. Derivatives are held for trading unless they are designated as effective hedging instruments.

Financial assets or financial liabilities designated at fair value through profit or loss

A financial instrument may be designated as a financial asset or financial liability at fair value through profit or loss upon initial recognition, if it meets any of the criteria set out below, and is so designated by management.

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial asset or financial liability or from recognising the gains and losses on them on different bases;
- it applies to a group of financial assets, financial liabilities or both which is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and liabilities designated at fair value through profit or loss are recorded in the balance sheet at fair value. Changes in fair value are recorded in "Net gain/loss on financial assets and liabilities designated at fair value through profit or loss". Interest income or expense are recorded in "Net gain/loss on financial assets and liabilities designated at fair value through profit or loss" respectively, according to the terms of the contract, while dividend income is recorded in "Net gain/loss on financial assets and liabilities designated at fair value through profit or loss" when the right to payment has been established.

Held-to-maturity financial investments

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

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

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

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group has no intention of trading the assets immediately or in the near term. Loans and receivables mainly include loans and advances to customers, receivables and discounted bills. After initial measurement, such assets are subsequently carried at amortised cost using the effective interest method, less any allowance for impairment losses. Gains and losses are recognised in the income statement when such assets are derecognised or impaired, as well as through the amortisation process.

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

Available-for-sale financial assets

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

When the fair value of the available-for-sale financial assets cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the possibilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less impairment losses.

Deposits, debt securities issued and other financial liabilities

Deposits, debt securities issued other than those designated as trading liabilities or at fair value through profit or loss, and other financial liabilities are carried at amortised costs using the effective interest rate method.

(5) Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence of impairment of financial assets as a result of one or more events that occur after the initial recognition of those assets ("loss events") and whether the loss events have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows.

Financial assets carried at amortised cost

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

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

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

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

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

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

Financial assets carried at cost

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

Available-for-sale financial assets

For available-for-sale financial investments, the Group assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement, is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of "interest income". If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impaired loss is reversed through the income statement.

(6) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(7) Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

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

As part of its operational activities, the Group securities financial assets, generally through the sale of these assets to special purposes entities which issue securities to investors. The transferred assets may qualify for derecognition in full or in part. Further details on prerequisites for derecognition of financial assets are set out above.

Financial liabilities

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

(8) Derivatives and hedge accounting

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

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

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

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

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

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

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

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

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

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

(9) Trade date accounting

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

(10) Offsetting

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

(11) Repurchase and reverse repurchase transactions

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

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

(12) Property and equipment

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

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

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

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

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

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

	Estimated useful lives
Properties and buildings	5 to 35 years
Leasehold improvements	Over the shorter of the economic useful lives or remaining lease terms
Office equipment and computers	3 to 5 years
Motor vehicles	4 to 6 years

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

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

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

(13) Land use rights

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

(14) Repossessed assets

Collateral assets for loans and advances are repossessed by the Group when the borrowers are unable to honour their repayments, and would be realised in settlement of the related outstanding debts. Repossessed assets are initially recognised at the carrying amount of the related loan principal and interest receivable, net of allowance for impairment losses. The Group's repossessed assets are reviewed at each balance sheet date by management to assess whether they are recorded in excess of their recoverable amount, and if their carrying value exceeds the recoverable amount, the assets are written down. Impairment loss, being the difference between the estimated net recoverable amount and the carrying value, is charged to the income statement.

(15) Business combination and goodwill

Business combination is accounted for using the purchase method.

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

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

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

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

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

(16) Impairment of assets

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

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

(17) Cash and cash equivalents

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

(18) Operating leases

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

(19) Related parties

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

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

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

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

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

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

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

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

(20) Recognition of income and expense

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

Interest income and expense

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

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

Fee and commission income

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

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

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

(ii) Fee income from providing transaction services

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

Dividend income

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

Net trading income

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

(21) Income tax

Current tax

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

Deferred tax

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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

(22) Employee benefits

Short term employee benefits

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

Defined contribution plans

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

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

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

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

Termination benefits

Termination benefits are payable whenever an employee's employment is voluntarily terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises retirement benefits when it is demonstrably committed to terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal.

Share-based payment transactions

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

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

(23) Fiduciary activities

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

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

(24) Financial guarantee contracts

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

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

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

(25) Provisions

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

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

(26) Contingent liabilities

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

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

(27) Dividends

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Designation of held-to-maturity investments

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

Impairment losses of loans and advances

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

Impairment losses of available-for-sale and held-to-maturity investments

In determining whether there is any objective evidence that impairment losses on available-for-sale and held-to-maturity investments have occurred, the Group assesses periodically whether there has been a significant or prolonged decline in the fair value below its cost or carrying amount, or whether other objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry environment, change of technology, operating and financing cash flows, etc. This requires significant level of judgement of the management, which would affect the amount of impairment losses.

Income tax

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

(In RMB millions, unless otherwise stated)

Fair value of financial instruments

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

5. IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 2 Amendment	Share-based Payments — Vesting Conditions and Cancellations
IFRS 3 (Revised)	Business Combinations
IFRS 8	Operating Segments
IAS 1 (Revised)	Presentation of Financial Statements
IAS 1 and IAS 32 Amendments	Puttable Financial Instruments and Obligations Arising on Liquidation
IAS 23 (Revised)	Borrowing Costs
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IFRIC 11	IFRS 2 — Group and Treasury Share Transactions
IFRIC 14	IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRS 2 Amendment shall be applied for annual periods beginning on or after 1 January 2009. IFRS 2 Amendment restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services.

IFRS 3 (Revised) shall be applied for annual periods beginning on or after 1 July 2009. It introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The changes must be applied prospectively and will affect future acquisitions and transactions with minority interests.

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

(In RMB millions, unless otherwise stated)

IAS 1 (Revised) shall be applied for annual periods beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

IAS 1 and IAS 32 Amendment shall be applied for annual periods beginning on or after 1 January 2009. IAS 1 Amendment requires disclosure of certain information relating to puttable instruments classified as equity. IAS 32 Amendment requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met.

IAS 23 (Revised) shall be applied for annual periods beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs related to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements, the Group will adopt this standard prospectively. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

IAS 27 (Revised) shall be applied for annual periods beginning on or after 1 July 2009. It requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes must be applied prospectively and will affect future acquisitions and transactions with minority interests.

IFRIC interpretation 11 shall be applied for annual periods beginning on or after 1 March 2007. It requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instrument from another party, or the shareholders provide the equity instruments needed.

IFRIC interpretation 14 shall be applied for annual periods beginning on or after 1 January 2008. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 "Employee Benefits".

The Group is in the process of making an assessment of the impact of these new and revised IFRSs and interpretations upon initial application.

6. NET INTEREST INCOME

	2007	2006
Interest income on:		
Loans and advances to customers	237,880	187,623
Due from central banks	14,805	10,080
Due from banks and other financial institutions	12,878	8,355
Financial investments	91,724	65,591
	357,287	271,649
Interest expense on:		
Due to customers	(116,336)	(99,076)
Due to banks and other financial institutions	(15,305)	(7,898)
Subordinated bonds	(1,181)	(1,133)
	(132,822)	(108,107)
Net interest income	224,465	163,542

(In RMB millions, unless otherwise stated)

The above interest income and expense were related to financial assets and liabilities which are not at fair value through profit or loss.

Included in interest income from loans and advances to customers for the year is an amount of RMB1,430 million (2006: RMB1,890 million) with respect to the accreted interest on impaired loans (note 26).

7. NET FEE AND COMMISSION INCOME

	2007	2006
Wealth management services	15,453	3,214
Renminbi settlement and clearing business	5,294	4,656
Bank card business	4,537	3,228
Investment banking business	4,505	3,099
Trust and other fiduciary activities	1,989	657
Agency services	1,498	1,001
Foreign currency intermediary business	1,343	1,006
E-banking business	1,283	693
Guarantee and commitment business	562	433
Others	975	542
Fee and commission income	37,439	18,529
Fee and commission expense	(3,055)	(2,185)
Net fee and commission income	34,384	16,344

8. NET TRADING INCOME

	2007	2006
Debt securities	1,343	1,100
Equity investments	4	—
Derivatives	4	1,038
	1,351	2,138

9. NET LOSS ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2007	2006
Financial assets	192	121
Financial liabilities	(1,607)	(2,120)
	(1,415)	(1,999)

Included in the total amounts are the gains and losses arising from the buying and selling, interest income and expense on and changes in the fair value of financial assets and liabilities designated at fair value through profit or loss upon initial recognition.

(In RMB millions, unless otherwise stated)

10. NET GAIN ON FINANCIAL INVESTMENTS

	2007	2006
Dividend income from unlisted investments	74	28
Gain on disposal of available-for-sale investments, net	425	113
	499	141

Included in "Gain on disposal of available-for-sale investments, net" above is RMB121 million (2006: Nil) with respect to the gain on disposal of available-for-sale investments of RMB1,086 million (2006: RMB40 million), being the carrying value at the time of disposal, whose fair value could not be reliably measured.

11. OTHER OPERATING INCOME/(LOSS), NET

	2007	2006
Loss from foreign exchange and foreign exchange products, net	(6,881)	(1,329)
Net gain on disposal of property and equipment, repossessed assets and others	1,838	1,057
Sundry bank charge income	698	917
Others	1,090	827
	(3,255)	1,472

12. OPERATING EXPENSES

	2007	2006
Staff costs:		
Salaries and bonuses	27,159	22,246
Contributions to defined contribution schemes (i)	4,561	3,591
Other staff benefits (ii)	23,179	8,923
	54,899	34,760
Supplementary retirement benefits	—	389
Premises and equipment expenses:		
Depreciation	8,318	9,622
Minimum lease payments under operating leases in respect of land and buildings	2,023	1,836
Repairs and maintenance charges	2,145	1,513
Utility expenses	1,556	1,448
	14,042	14,419
Amortisation	1,174	1,106
Other administrative expenses (iii)	14,816	11,271
Business tax and surcharges	14,511	11,419
Others	3,819	4,033
	103,261	77,397

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

(ii) According to the Bank's policy on early retirement benefits, certain employees ("Early Retired Employees") are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Bank. The Bank regularly assesses the status of the Early Retired Employees and the future ongoing human resources requirement of the Bank. Following such an assessment made during the current year, included in "other staff benefits" for the year ended 31 December 2007 is a one-off charge of RMB12.5 billion, reflecting the present value of future costs of the Early Retired Employees.

(iii) Included in other administrative expenses is auditors' remuneration of RMB171 million for the year (2006: RMB186 million).

13. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

	Group	
	2007 RMB'000	2006 RMB'000
Fees	2,160	1,528
Other emoluments:		
Salaries, allowances and benefits in kind	3,492	2,386
Discretionary bonuses	5,375	3,910
Contributions to defined contribution schemes	1,085	978
	12,112	8,802

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

	Year ended 31 December 2007				
	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	RMB'000	RMB'000	Total RMB'000
Executive directors					
Mr. JIANG Jianqing	—	620	986	189	1,795
Mr. YANG Kaisheng	—	600	934	177	1,711
Mr. ZHANG Furong	—	520	865	148	1,533
Mr. NIU Ximing	—	520	850	147	1,517
Non-executive directors					
Mr. FU Zhongjun	—	—	—	—	—
Mr. KANG Xuejun	—	—	—	—	—
Mr. SONG Zhigang	—	—	—	—	—
Mr. WANG Wenyan	—	—	—	—	—
Ms. ZHAO Haiying	—	—	—	—	—
Mr. ZHONG Jian'an	—	—	—	—	—
Mr. Christopher A. COLE	—	—	—	—	—
Independent non-executive directors					
Mr. XU Shanda	100	—	—	—	100
Mr. LEUNG Kam Chung, Antony	510	—	—	—	510
Mr. John L. THORNTON	450	—	—	—	450
Mr. QIAN Yingyi	470	—	—	—	470
Supervisors					
Mr. WANG Weiqiang	—	560	882	162	1,604
Ms. WANG Chixi	—	391	402	131	924
Mr. WANG Daocheng	300	—	—	—	300
Mr. MIAO Gengshu	280	—	—	—	280
Mr. ZHANG Wei	50	281	456	131	918
	2,160	3,492	5,375	1,085	12,112

	Year ended 31 December 2006				
	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	RMB'000	RMB'000	Total RMB'000
Executive directors					
Mr. JIANG Jianqing	—	458	665	177	1,300
Mr. YANG Kaisheng	—	439	643	168	1,250
Mr. ZHANG Furong	—	406	529	145	1,080
Mr. NIU Ximing	—	400	545	144	1,089
Non-executive directors					
Mr. FU Zhongjun	—	—	—	—	—
Mr. KANG Xuejun	—	—	—	—	—
Mr. SONG Zhigang	—	—	—	—	—
Mr. WANG Wenyan	—	—	—	—	—
Ms. ZHAO Haiying	—	—	—	—	—
Mr. ZHONG Jian'an	—	—	—	—	—
Mr. Christopher A. COLE	—	—	—	—	—
Independent non-executive directors					
Mr. LEUNG Kam Chung, Antony	375	—	—	—	375
Mr. John L. THORNTON	325	—	—	—	325
Mr. QIAN Yingyi	335	—	—	—	335
Supervisors					
Mr. WANG Weiqiang	—	419	603	158	1,180
Ms. WANG Chixi	—	132	472	96	700
Mr. WANG Daocheng	250	—	—	—	250
Mr. MIAO Gengshu	230	—	—	—	230
Mr. ZHANG Wei	13	132	453	90	688
	1,528	2,386	3,910	978	8,802

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

One of the Bank's executive directors, who is also a director of a subsidiary of the Bank, waived emoluments amounting to RMB190,000 for the year ended 31 December 2007 (2006: RMB170,000), which were related to discretionary bonuses for employees who contributed to the success of operations of the Bank's subsidiary. Therefore, those emoluments were not included in the directors' emoluments disclosed above. Save for above, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year ended 31 December 2007.

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

14. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group are employees of the Bank's overseas subsidiaries. Their emoluments were determined based on the prevailing market rates in the respective countries/regions where the subsidiaries are operating. None of them are directors, supervisors or key management personnel of the Bank whose emoluments are disclosed in note 13 or 46(f) to the financial statements. Details of the emoluments in respect of the five highest paid individuals are as follows:

	Group	
	2007 RMB'000	2006 RMB'000
Salaries, allowances and benefits in kind	11,559	15,565
Discretionary bonuses	19,997	3,700
Contributions to defined contribution schemes	767	1,161
	32,323	20,426

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

	Number of employees	
	2007	2006
RMB3,000,001 to RMB3,500,000	—	1
RMB3,500,001 to RMB4,000,000	—	2
RMB4,500,001 to RMB5,000,000	1	1
RMB5,000,001 to RMB5,500,000	1	1
RMB5,500,001 to RMB6,000,000	1	—
RMB6,000,001 to RMB6,500,000	1	—
RMB10,000,001 to RMB10,500,000	1	—
	5	5

During the year, no emoluments were paid by the Group to any of these non-director and non-supervisor individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2006: Nil).

(In RMB millions, unless otherwise stated)

15. IMPAIRMENT LOSSES ON ASSETS OTHER THAN LOANS AND ADVANCES TO CUSTOMERS

	Notes	2007	2006
Charge/(reversal) of impairment losses on:			
Due from banks and other financial institutions	21	22	(36)
Financial investments:			
Held-to-maturity debt securities	27(d)	110	(5)
Available-for-sale investments (i)		3,135	430
Property and equipment	30	536	539
Other assets		542	1,247
		4,345	2,175

(i) Included in the current year amount is impairment losses of RMB3,081 million for available-for-sale debt securities, which reduced the carrying amount of the investments directly.

16. INCOME TAX EXPENSE

The PRC income tax has been provided at the statutory rate of 33% (2006: 33%) in accordance with the relevant tax laws in Mainland China during the year. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries/regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2007	2006
Current income tax expense:		
The PRC		
— Mainland China	40,137	23,010
— Hong Kong and Macau	359	436
Overseas	76	73
	40,572	23,519
Adjustment in respect of current income tax of prior years	(1,890)	(1,359)
	38,682	22,160
Deferred income tax charge/(credit) — note 31	(5,558)	25
Total income tax expense for the year	33,124	22,185

(In RMB millions, unless otherwise stated)

A reconciliation of income tax expense applicable to profit before tax at the PRC statutory income tax rate of 33% (2006: 33%) to income tax expense at the Group's effective income tax rate is as follows:

	2007	2006
Profit before tax	115,378	72,065
Tax at the PRC statutory income tax rate	38,075	23,781
Non-deductible expenses:		
Impairment provision and write-offs	1,550	3,792
Others	356	1,009
	1,906	4,801
Non-taxable income:		
Income arising from bonds exempted from income tax	(5,117)	(3,746)
Others	(1,486)	(1,292)
	(6,603)	(5,038)
Effects of change in tax rate on deferred tax	1,636	—
Adjustment in respect of current income tax of prior years	(1,890)	(1,359)
Tax expense at the Group's effective income tax rate	33,124	22,185

New corporate income tax law has become effective from 1 January 2008 onwards, which unified the corporate income tax rates for both domestic-invested and foreign-invested enterprises at 25%. Accordingly, the Group has adjusted the deferred tax assets and liabilities balances for the temporary differences of assets or liabilities based on the new tax rate.

17. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

The consolidated profit attributable to equity holders of the parent company for the year ended 31 December 2007 includes a profit of RMB80,933 million (2006: RMB49,185 million) which has been dealt with in the financial statements of the Bank (note 40).

18. DIVIDENDS

	2007	2006
Dividends on ordinary shares declared:		
Final dividend for 2006: RMB0.016 per share (2005: RMB0.014 per share)	5,344	3,537
Interim dividend for 2006: RMB0.065 per share	—	18,593
Special dividend for 2006: RMB0.035 per share	—	10,146
	5,344	32,276

	2007	2006
Dividends on ordinary shares proposed for approval (not recognised as at 31 December):		
Final dividend for 2007: RMB0.133 per share (2006: RMB0.016 per share)	44,425	5,344

The proposed final dividend for the year is subject to the approval of the Bank's shareholders at the forthcoming annual general meeting. The dividend was not recognised as a liability as at 31 December 2007.

19. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

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

	2007	2006
Earnings:		
Profit for the year attributable to equity holders of the parent company	81,520	49,263
Shares:		
Weighted average number of shares in issue (million)	334,019	280,177
Earnings per share (RMB yuan)	0.24	0.18

Basic earnings per share is computed based on the profit for the year attributable to equity holders of the parent company, and the weighted average number of shares in issue during the year.

There was no difference between the basic and diluted earnings per share as there were no dilutive events existed during the year.

20. CASH AND BALANCES WITH CENTRAL BANKS

	Group		Bank	
	2007	2006	2007	2006
Cash on hand	39,123	31,446	38,899	31,213
Balances with central banks other than restricted deposits	83,328	74,704	82,793	74,532
Unrestricted cash and balances with central banks	122,451	106,150	121,692	105,745
Mandatory reserve deposits with central banks	947,236	547,802	947,110	547,795
Other restricted deposits with central banks	72,659	49,705	72,659	49,705
Restricted balances with central banks	1,019,895	597,507	1,019,769	597,500
	1,142,346	703,657	1,141,461	703,245

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

As at 31 December 2007, the required mandatory deposits reserve ratios set by the PBOC for customer deposits denominated in RMB and foreign currencies are 14.5% (2006: 9%) and 5% (2006: 4%), respectively.

(In RMB millions, unless otherwise stated)

21. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2007	2006	2007	2006
Nostro accounts:				
Banks operating in Mainland China	11,380	5,909	10,866	5,471
Other financial institutions operating in Mainland China	469	318	469	318
Banks operating outside Mainland China	17,591	9,441	16,733	8,424
	29,440	15,668	28,068	14,213
Allowance for impairment losses	(34)	(31)	(34)	(31)
	29,406	15,637	28,034	14,182
Placements with banks and other financial institutions:				
Banks operating in Mainland China	15,879	21,481	18,684	20,349
Other financial institutions operating in Mainland China	5,884	2,778	5,784	2,778
Banks operating outside Mainland China	148,745	166,755	122,651	132,290
	170,508	191,014	147,119	155,417
Allowance for impairment losses	(156)	(145)	(156)	(145)
	170,352	190,869	146,963	155,272
	199,758	206,506	174,997	169,454

Included in nostro accounts and placements with banks and other financial institutions as at 31 December 2007 are balances with original maturity of three months or less in the amount of RMB25,526 million (2006: RMB7,547 million) and RMB144,257 million (2006: RMB151,372 million), respectively, which have been included in cash and cash equivalents in the consolidated cash flow statement (note 41(b)).

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

Group and Bank	Nostro accounts	Placements with banks and other financial institutions	Total
At 1 January 2006	28	185	213
Charge/(reversal) for the year	4	(40)	(36)
Write-offs	(1)	—	(1)
At 31 December 2006 and 1 January 2007	31	145	176
Charge for the year	3	19	22
Write-offs	—	(8)	(8)
At 31 December 2007	34	156	190

(In RMB millions, unless otherwise stated)

22. FINANCIAL ASSETS HELD FOR TRADING

	Group		Bank	
	2007	2006	2007	2006
Debt securities	31,501	19,345	31,485	19,215
Equity investments	35	43	—	—
	31,536	19,388	31,485	19,215
Debt securities analysed into:				
Listed in Hong Kong	1	234	—	234
Listed outside Hong Kong	650	173	650	115
Unlisted	30,850	18,938	30,835	18,866
	31,501	19,345	31,485	19,215

The equity investments are all listed in Hong Kong.

23. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2007	2006	2007	2006
Debt securities	2,785	1,768	1,142	173
Debt securities analysed into:				
Listed in Hong Kong	76	76	—	—
Listed outside Hong Kong	1,812	754	1,142	58
Unlisted	897	938	—	115
	2,785	1,768	1,142	173

24. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

Among the above derivative financial instruments, certain of them were designated as hedging instruments for the fair value hedge purpose.

Fair value hedges are used by the Bank to protect it against changes in the fair value of financial assets and financial liabilities due to movements in market interest rates. The financial instruments hedged for interest rate risk mainly include available-for-sale debt securities. The Bank uses interest rate swaps to hedge interest rate risk.

(In RMB millions, unless otherwise stated)

The effectiveness of the hedge based on changes in fair value of the derivatives and the hedged items attributable to the hedged risk recognised in the income statement during the year is presented as follows:

	Group	
	2007	2006
Gain/(loss) arising from fair value hedge, net:		
— Hedging instruments	(211)	(158)
— Hedged items attributable to the hedged risk	208	136
	(3)	(22)

At the balance sheet date, the Group and the Bank had derivative financial instruments as follows:

Group

	31 December 2007						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward and swap contracts	208,328	258,667	28,724	11,828	507,547	9,631	(4,804)
Option contracts purchased	29,798	83,948	3,892	—	117,638	11,644	(218)
	238,126	342,615	32,616	11,828	625,185	21,275	(5,022)
Interest rate contracts:							
Swap contracts	4,887	12,944	92,734	48,742	159,307	1,353	(1,964)
Forward contracts	4,529	4,483	27,465	5,698	42,175	129	(129)
Option contracts purchased/written	423	596	2,889	3,080	6,988	12	(12)
	9,839	18,023	123,088	57,520	208,470	1,494	(2,105)
	247,965	360,638	155,704	69,348	833,655	22,769	(7,127)

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

	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Interest rate swap contracts	167	1,486	2,686	881	5,220	11	(160)
Currency swap contracts	—	—	74	—	74	—	(4)
	167	1,486	2,760	881	5,294	11	(164)

(In RMB millions, unless otherwise stated)

Bank

	31 December 2007						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward and swap contracts	173,189	224,046	26,976	11,534	435,745	9,475	(4,614)
Option contracts purchased	22,805	68,415	—	—	91,220	11,552	(118)
	195,994	292,461	26,976	11,534	526,965	21,027	(4,732)
Interest rate contracts:							
Swap contracts	4,262	10,530	77,460	45,268	137,520	1,196	(1,725)
Forward contracts	4,529	4,483	27,465	5,698	42,175	129	(129)
Option contracts purchased/written	—	—	21	2,941	2,962	6	(6)
	8,791	15,013	104,946	53,907	182,657	1,331	(1,860)
	204,785	307,474	131,922	65,441	709,622	22,358	(6,592)

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

	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Interest rate swap contracts	—	923	2,061	530	3,514	3	(133)

(In RMB millions, unless otherwise stated)

Group

	31 December 2006						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward and swap contracts	79,581	93,728	5,643	3,417	182,369	672	(798)
Option contracts purchased	3,631	6,067	94,882	—	104,580	8,717	(20)
	83,212	99,795	100,525	3,417	286,949	9,389	(818)
Interest rate contracts:							
Swap contracts	6,254	23,798	41,554	31,766	103,372	1,089	(1,735)
Forward contracts	3,045	2,952	19,959	7,028	32,984	56	(56)
Option contracts purchased/written	564	1,197	1,742	3,297	6,800	3	(3)
	9,863	27,947	63,255	42,091	143,156	1,148	(1,794)
Other derivative contracts	79	—	—	—	79	2	(1)
	93,154	127,742	163,780	45,508	430,184	10,539	(2,613)

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

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

(In RMB millions, unless otherwise stated)

Bank

	31 December 2006						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward and swap contracts	64,113	90,883	5,129	3,402	163,527	633	(755)
Option contracts purchased	—	—	93,704	—	93,704	8,696	—
	64,113	90,883	98,833	3,402	257,231	9,329	(755)
Interest rate contracts:							
Swap contracts	5,722	20,041	34,234	29,201	89,198	979	(1,571)
Forward contracts	3,045	2,952	19,959	7,028	32,984	56	(56)
Option contracts purchased/written	—	—	45	3,148	3,193	—	—
	8,767	22,993	54,238	39,377	125,375	1,035	(1,627)
	72,880	113,876	153,071	42,779	382,606	10,364	(2,382)

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

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

The replacement costs and credit risk weighted amounts in respect of the above derivatives of the Group and of the Bank as at the balance sheet date are as follows:

Replacement costs

	Group		Bank	
	2007	2006	2007	2006
Currency derivatives	21,275	9,389	21,027	9,329
Interest rate derivatives	1,494	1,148	1,331	1,035
Other derivatives	—	2	—	—
	22,769	10,539	22,358	10,364

(In RMB millions, unless otherwise stated)

Credit risk weighted amounts

	Group		Bank	
	2007	2006	2007	2006
Currency derivatives	5,117	3,120	4,404	2,695
Interest rate derivatives	1,729	2,096	1,611	1,897
Other derivatives	—	6	—	—
	6,846	5,222	6,015	4,592

25. REVERSE REPURCHASE AGREEMENTS

	Group and Bank	
	2007	2006
Analysed by counterparty:		
Banks	65,763	13,779
Other financial institutions	10,117	25,439
	75,880	39,218
Analysed by collateral:		
Securities	6,185	6,418
Bills	58,153	9,989
Loans	11,542	22,811
	75,880	39,218

Under certain reverse repurchase agreements, the Group received collaterals that are permitted to be sold or repledged in the absence of default by the owners of the collaterals. The fair value of the collaterals received on such terms as at 31 December 2007 amounted to RMB4,790 million (2006: RMB1,989 million).

As at 31 December 2007, included in reverse repurchase agreements are balances with original maturity of three months or less in the amount of RMB9,453 million (2006: RMB10,291 million), which have been included in cash and cash equivalents in the consolidated cash flow statement (note 41(b)).

26. LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
	2007	2006	2007	2006
Corporate loans	3,057,517	2,630,916	2,949,787	2,562,708
Personal loans	763,607	587,893	752,363	576,155
Discounted bills	252,105	412,362	252,103	412,313
	4,073,229	3,631,171	3,954,253	3,551,176
Allowance for impairment losses	(115,687)	(97,193)	(115,331)	(96,744)
	3,957,542	3,533,978	3,838,922	3,454,432

(In RMB millions, unless otherwise stated)

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

	Group		Bank	
	2007	2006	2007	2006
State-wholly-owned enterprises (i)	740,241	648,883	740,241	648,883
State-controlled enterprises (i)	719,205	672,586	719,205	672,586
State-invested enterprises (i)	72,506	73,943	72,506	73,943
Joint-stock enterprises	416,676	348,304	416,676	348,304
Private enterprises	458,849	354,173	458,849	354,173
Foreign invested and foreign joint venture enterprises	293,820	257,437	293,820	257,437
Others (ii)	356,220	275,590	248,490	207,382
Total corporate loans	3,057,517	2,630,916	2,949,787	2,562,708

(i) Included in identified impaired loans and advances of the Group and of the Bank are amounts of RMB38,351 million (2006: RMB52,745 million) relating to the advances to state-owned enterprises including state-wholly-owned enterprises, state-controlled enterprises and state-invested enterprises.

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

Movements of allowance for impairment losses during the year analysed into those individually assessed and collectively assessed are as follows:

Group

	Individually assessed	Collectively assessed	Total
At 1 January 2006	49,396	34,296	83,692
Charge for the year	22,656	7,358	30,014
Accreted interest on impaired loans	(1,890)	—	(1,890)
Write-offs	(9,692)	(1,452)	(11,144)
Transfer out	(3,479)	—	(3,479)
At 31 December 2006 and 1 January 2007	56,991	40,202	97,193
Charge for the year	15,928	17,133	33,061
Accreted interest on impaired loans	(1,430)	—	(1,430)
Write-offs	(7,579)	(592)	(8,171)
Transfer out	(4,966)	—	(4,966)
At 31 December 2007	58,944	56,743	115,687

(In RMB millions, unless otherwise stated)

Bank

	Individually assessed	Collectively assessed	Total
At 1 January 2006	49,095	34,073	83,168
Charge for the year	22,554	7,338	29,892
Accreted interest on impaired loans	(1,880)	—	(1,880)
Write-offs	(9,505)	(1,452)	(10,957)
Transfer out	(3,479)	—	(3,479)
At 31 December 2006 and 1 January 2007	56,785	39,959	96,744
Charge for the year	15,914	17,167	33,081
Accreted interest on impaired loans	(1,411)	—	(1,411)
Write-offs	(7,535)	(592)	(8,127)
Transfer out	(4,956)	—	(4,956)
At 31 December 2007	58,797	56,534	115,331

Movements of allowance for impairment losses during the year analysed into those attributable to corporate loans and discounted bills and personal loans are as follows:

Group

	Corporate loans and discounted bills	Personal loans	Total
At 1 January 2006	74,898	8,794	83,692
Charge for the year	26,509	3,505	30,014
Accreted interest on impaired loans	(1,890)	—	(1,890)
Write-offs	(9,692)	(1,452)	(11,144)
Transfer out	(3,479)	—	(3,479)
At 31 December 2006 and 1 January 2007	86,346	10,847	97,193
Charge for the year	30,363	2,698	33,061
Accreted interest on impaired loans	(1,430)	—	(1,430)
Write-offs	(7,579)	(592)	(8,171)
Transfer out	(4,966)	—	(4,966)
At 31 December 2007	102,734	12,953	115,687

(In RMB millions, unless otherwise stated)

Bank

	Corporate loans and discounted bills	Personal loans	Total
At 1 January 2006	74,436	8,732	83,168
Charge for the year	26,382	3,510	29,892
Accreted interest on impaired loans	(1,880)	—	(1,880)
Write-offs	(9,505)	(1,452)	(10,957)
Transfer out	(3,479)	—	(3,479)
At 31 December 2006 and 1 January 2007	85,954	10,790	96,744
Charge for the year	30,353	2,728	33,081
Accreted interest on impaired loans	(1,411)	—	(1,411)
Write-offs	(7,535)	(592)	(8,127)
Transfer out	(4,956)	—	(4,956)
At 31 December 2007	102,405	12,926	115,331

	Group		Bank	
	2007	2006	2007	2006
Loans and advances for which allowance for impairment losses is:				
Individually assessed	103,055	128,447	102,530	127,538
Collectively assessed	3,970,174	3,502,724	3,851,723	3,423,638
	4,073,229	3,631,171	3,954,253	3,551,176
Allowance for impairment losses:				
Individually assessed	58,944	56,991	58,797	56,785
Collectively assessed	56,743	40,202	56,534	39,959
	115,687	97,193	115,331	96,744
Net loans and advances for which allowance for impairment losses is:				
Individually assessed	44,111	71,456	43,733	70,753
Collectively assessed	3,913,431	3,462,522	3,795,189	3,383,679
	3,957,542	3,533,978	3,838,922	3,454,432
Identified impaired loans and advances	111,774	137,745	111,140	136,836
Percentage of impaired loans and advances	2.74%	3.79%	2.81%	3.85%

(In RMB millions, unless otherwise stated)

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

	Group		Bank	
	2007	2006	2007	2006
State-wholly-owned enterprises	13,091	13,955	13,091	13,955
State-controlled enterprises	9,010	10,060	9,010	10,060
State-invested enterprises	3,663	3,387	3,663	3,387
Joint-stock enterprises	9,434	7,520	9,434	7,520
Private enterprises	10,830	9,841	10,830	9,841
Foreign invested and foreign joint venture enterprises	6,642	5,648	6,642	5,648
Others	6,274	6,580	6,127	6,374
Total individually assessed allowance for impairment losses	58,944	56,991	58,797	56,785

27. FINANCIAL INVESTMENTS

		Group		Bank	
	Notes	2007	2006	2007	2006
Receivables	(a)	1,211,767	1,106,163	1,211,767	1,106,163
Held-to-maturity debt securities	(b)	1,330,085	1,228,937	1,334,508	1,236,211
Available-for-sale investments	(c)	531,155	504,542	515,229	492,639
		3,073,007	2,839,642	3,061,504	2,835,013

(a) Receivables

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

		Group and Bank	
	Notes	2007	2006
Huarong bonds	(i)	312,996	312,996
Special government bond	(ii)	85,000	85,000
MOF receivable	(iii)	193,981	226,378
Special PBOC bills	(iv)	434,790	434,790
PBOC bills and policy bank bonds	(v)	185,000	46,999
		1,211,767	1,106,163

Notes:

(i) Huarong bonds are a series of long term bonds issued by China Huarong Asset Management Corporation ("Huarong") in 2000 and 2001, with an aggregate amount of RMB312,996 million. The proceeds from the issuance of the bond were used to purchase impaired assets of the Group. The bonds are non-transferable, with a tenure of 10 years and bear fixed interest at a rate of 2.25% per annum. The Ministry of Finance of the PRC (the "MOF") will provide support for the repayment of the principal of the Huarong bonds if necessary. In addition, with effect from 1 July 2005, should Huarong be unable to make full payment of the bond interest, the MOF will provide funding in support of the payment.

(In RMB millions, unless otherwise stated)

(ii) The special government bond represents a non-negotiable bond with a nominal value of RMB85,000 million issued by the MOF to the Bank in 1998. The bond will mature in 2028 and bears interest at a fixed rate of 2.25% per annum.

(iii) MOF receivable represents the receivable arising from the disposal of certain impaired assets to Huarong in 2005. The amount is repayable by 2010 and bears interest at a fixed rate of 3% per annum. The repayment of principal from the MOF during the year amounted to RMB32,397 million (2006: RMB19,622 million).

(iv) Special PBOC bills consist of:

- a non-transferable bill with a nominal value of RMB430,465 million issued by the PBOC in June 2005, which will mature in June 2010 and bears a fixed interest rate of 1.89% per annum. The PBOC has the right to early redeem the bill prior to the maturity date; and
- a non-transferable bill with a nominal value of RMB4,325 million issued by the PBOC in June 2006, which will mature in June 2011 and bears a fixed interest rate of 1.89% per annum. The PBOC has the right to early redeem the bill prior to the maturity date.

(v) PBOC bills and policy bank bonds

The balance represents non-transferable debt securities with fixed or determinable payments.

(b) Held-to-maturity debt securities

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

	Group		Bank	
	2007	2006	2007	2006
Debt securities	1,330,234	1,228,976	1,334,654	1,236,250
Allowance for impairment losses	(149)	(39)	(146)	(39)
	1,330,085	1,228,937	1,334,508	1,236,211

	Group		Bank	
	2007	2006	2007	2006
Analysed into:				
Listed in Hong Kong	655	496	655	496
Listed outside Hong Kong	331,109	146,764	330,547	146,060
Unlisted	998,321	1,081,677	1,003,306	1,089,655
	1,330,085	1,228,937	1,334,508	1,236,211
Fair value of listed debt securities	323,928	148,354	323,401	147,648

(In RMB millions, unless otherwise stated)

(c) Available-for-sale investments

Available-for-sale investments comprise the following:

	Group		Bank	
	2007	2006	2007	2006
Debt securities, at fair value	524,723	499,108	511,113	488,264
Equity investments:				
At fair value	3,412	1,325	1,177	372
At cost (i):				
Debt for equity swaps (ii)	3,130	4,236	3,130	4,236
Others	338	340	240	234
	6,880	5,901	4,547	4,842
Allowance for impairment losses of equity investments	(448)	(467)	(431)	(467)
	6,432	5,434	4,116	4,375
	531,155	504,542	515,229	492,639
Debt securities analysed into:				
Listed in Hong Kong	1,617	1,147	612	506
Listed outside Hong Kong	44,454	34,953	38,792	30,792
Unlisted	478,652	463,008	471,709	456,966
	524,723	499,108	511,113	488,264
Equity investments analysed into:				
Listed in Hong Kong	2,235	953	—	—
Listed outside Hong Kong	1,177	372	1,177	372
Unlisted	3,020	4,109	2,939	4,003
	6,432	5,434	4,116	4,375
Fair value of listed securities:				
Debt securities	46,071	36,100	39,404	31,298
Equity investments	3,412	1,325	1,177	372
	49,483	37,425	40,581	31,670

(i) Certain available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any impairment losses. There is no active market for these investments and it is the Bank's intention to dispose of them as opportunities arise.

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

(In RMB millions, unless otherwise stated)

(d) Movements of allowance for impairment losses of held-to-maturity debt securities and available-for-sale equity investments during the year are as follows:

	Group			Bank		
	Held-to-maturity debt securities	Available-for-sale equity investments	Total	Held-to-maturity debt securities	Available-for-sale equity investments	Total
At 1 January 2006	237	40	277	237	40	277
Charge/(reversal) for the year	(5)	430	425	(5)	430	425
Disposals	(193)	(3)	(196)	(193)	(3)	(196)
At 31 December 2006 and 1 January 2007	39	467	506	39	467	506
Charge for the year	110	54	164	107	37	144
Disposals	—	(73)	(73)	—	(73)	(73)
At 31 December 2007	149	448	597	146	431	577

28. INVESTMENTS IN SUBSIDIARIES

	Bank	
	2007	2006
Unlisted investments, at cost	4,815	1,611
Shares listed in Hong Kong, at cost	7,556	5,649
	12,371	7,260
Fair value of the Bank's investment in a subsidiary whose shares are listed in Hong Kong	15,176	10,083

(In RMB millions, unless otherwise stated)

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

Name	Percentage of equity interests directly attributable to the Bank 2007 %	2006 %	Nominal value of issued share/ paid-up capital	Place of incorporation/ registration and operations	Principal activities
Industrial and Commercial Bank of China (Asia) Limited ("ICBC (Asia)") (i)	62.98	59.72	HK$2,451.90 million	Hong Kong	Commercial banking
Industrial and Commercial International Capital Limited ("ICIC")	100.00	100.00	HK$280 million	Hong Kong	Commercial banking
ICEA Finance Holdings Limited ("ICEA")	75.00	75.00	US$20 million	British Virgin Islands and Hong Kong	Investment banking
ICBC (London) Limited ("ICBC (London)")	100.00	100.00	US$200 million	London, United Kingdom	Commercial banking
JSC Industrial and Commercial Bank of China ("ICBC (Almaty)")	100.00	100.00	US$10 million	Almaty, Kazakhstan	Commercial banking
ICBC Credit Suisse Asset Management Co., Ltd. ("ICBC Credit Suisse Asset Management") (ii)	55.00	55.00	RMB200 million	Beijing, the PRC	Fund management
ICBC (Luxembourg) S.A. ("ICBC (Luxembourg)")	100.00	100.00	US$18.50 million	Luxembourg	Commercial banking
PT. Bank ICBC Indonesia (iii)	90.00	—	Rupiah100,000 million	Indonesia	Commercial banking
ZAO Industrial and Commercial Bank of China (Moscow) ("ICBC (Moscow)")	100.00	—	Ruble1,000 million	Moscow, Russia	Commercial banking
ICBC Financial Leasing Co., Ltd. (iv)	100.00	—	RMB2,000 million	Tianjin, the PRC	Financial leasing company

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

(i) During the year, the Bank has been allotted 26,186,509 ordinary shares of ICBC (Asia) in lieu of cash in the amount of HK$466 million in aggregate, pursuant to the scrip dividend schemes of ICBC (Asia).

On 7 November 2007, ICBC (Asia) issued warrants to its shareholders on the basis of one warrant of every nine shares held. The subscription price was at HK$20 per share and the warrants are exercisable at any time during the period commencing from 7 November 2007 to 6 November 2008. The Bank exercised all the warrants issued by ICBC (Asia) on 6 December 2007, and subscribed for 76,338,660 shares in ICBC (Asia) at HK$20 per share, being HK$1,527 million in aggregate.

Immediately following the exercise of warrants and subscription of additional shares, the equity interest held by the Bank in ICBC (Asia) increased to approximately 62.98%.

(ii) ICBC Credit Suisse Asset Management is registered as a sino-foreign equity joint venture enterprise under the PRC Law.

(iii) The Bank acquired 90% equity interests in PT. Bank Halim Indonesia ("Halim Bank"). Halim Bank is a commercial bank domiciled in Indonesia. The acquisition was completed on 28 September 2007 at a consideration of RMB150 million and Halim Bank was renamed as PT. Bank ICBC Indonesia ("ICBC (Indonesia)") hereafter.

Had the acquisition taken place at the beginning of the year, the interest income and fee and commission income of the Group would have been RMB357,313 million and RMB37,441 million, respectively, and the profit for the year of the Group would have been RMB82,258 million. There is no material difference between the carrying amount of Halim Bank's net assets immediately before the acquisition, and the fair value of identifiable assets and liabilities as at the acquisition date.

(In RMB millions, unless otherwise stated)

Goodwill of RMB69 million has been recognised at acquisition date, which comprises the fair value of expected synergies arising from the acquisition.

(iv) ICBC Financial Leasing Co., Ltd. is registered as a limited company under the PRC Law.

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

	2007	2006
Due from subsidiaries	16,149	13,174
Due to subsidiaries	(4,404)	(2,673)
Investments	7,854	11,524

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

29. INVESTMENTS IN ASSOCIATES

	Group		Bank	
	2007	2006	2007	2006
Share of net assets	172	127	—	—
Unlisted investment, at cost	—	—	—	74
	172	127	—	74

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

	2007	2006
Assets	634	2,558
Liabilities	(214)	(1,976)
Net assets	420	582
Revenue	93	201
Profit for the year	61	60

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

	Percentage of equity interest attributable to the Group			
Name	2007 %	2006 %	Place of incorporation/ registration	Principal activities
Directly held by the Bank:				
Qingdao International Bank (i)	—	20.83	Qingdao, the PRC	Commercial banking
Indirectly held by the Bank:				
IEC Investments Limited (ii)	25.19	—	Hong Kong	Investment company
China Ping An Insurance (Hong Kong) Company Limited (iii)	15.75	14.93	Hong Kong	General insurance

(i) During the year, the Bank disposed of its entire equity interest in Qingdao International Bank.

(ii) The shareholding of a 40% equity interest in this associate is held through a non-wholly-owned subsidiary, ICBC (Asia). The percentage of ownership interest disclosed represents the effective percentage held by the Group.

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

(In RMB millions, unless otherwise stated)

30. PROPERTY AND EQUIPMENT

Group

	Properties and buildings	Construction in progress	Leasehold improve-ments	Office equipment and computers	Motor vehicles	Total
Cost or valuation:						
At 1 January 2006	72,746	2,850	1,533	14,420	1,907	93,456
Additions	918	2,022	332	2,850	80	6,202
Transfers	1,171	(1,964)	50	626	13	(104)
Disposals	(1,161)	—	(443)	(270)	(116)	(1,990)
At 31 December 2006 and 1 January 2007	73,674	2,908	1,472	17,626	1,884	97,564
Additions	1,426	2,390	547	4,314	128	8,805
Acquisition of a subsidiary	3	—	—	2	2	7
Transfers	1,279	(1,600)	—	310	21	10
Disposals	(1,737)	(1,031)	(225)	(316)	(275)	(3,584)
At 31 December 2007	74,645	2,667	1,794	21,936	1,760	102,802
Accumulated depreciation and impairment:						
At 1 January 2006	1,803	185	752	2,552	504	5,796
Depreciation charge for the year	3,363	—	285	5,310	664	9,622
Impairment losses	362	160	—	11	6	539
Disposals	(124)	—	(431)	(156)	(85)	(796)
At 31 December 2006 and 1 January 2007	5,404	345	606	7,717	1,089	15,161
Depreciation charge for the year	3,341	—	273	4,320	384	8,318
Impairment losses	470	51	—	10	5	536
Disposals	(506)	(247)	(205)	(290)	(231)	(1,479)
At 31 December 2007	8,709	149	674	11,757	1,247	22,536
Net carrying amount:						
At 31 December 2006	68,270	2,563	866	9,909	795	82,403
At 31 December 2007	65,936	2,518	1,120	10,179	513	80,266
Analysis of cost or valuation:						
At 31 December 2006						
At cost	4,783	2,908	1,472	6,216	217	15,596
At 30 June 2005 valuation	68,891	—	—	11,410	1,667	81,968
	73,674	2,908	1,472	17,626	1,884	97,564
At 31 December 2007						
At cost	7,491	2,667	1,794	10,842	368	23,162
At 30 June 2005 valuation	67,154	—	—	11,094	1,392	79,640
	74,645	2,667	1,794	21,936	1,760	102,802

(In RMB millions, unless otherwise stated)

Bank

	Properties and buildings	Construction in progress	Leasehold improve-ments	Office equipment and computers	Motor vehicles	Total
Cost or valuation:						
At 1 January 2006	72,553	2,850	1,377	14,082	1,896	92,758
Additions	918	2,022	280	2,818	74	6,112
Transfers	1,171	(1,964)	50	626	13	(104)
Disposals	(1,127)	—	(421)	(252)	(116)	(1,916)
At 31 December 2006 and 1 January 2007	73,515	2,908	1,286	17,274	1,867	96,850
Additions	1,375	2,390	528	4,257	127	8,677
Transfers	1,279	(1,600)	—	310	21	10
Disposals	(1,621)	(1,031)	(210)	(52)	(268)	(3,182)
At 31 December 2007	74,548	2,667	1,604	21,789	1,747	102,355
Accumulated depreciation and impairment:						
At 1 January 2006	1,757	185	658	2,291	498	5,389
Depreciation charge for the year	3,355	—	266	5,294	658	9,573
Impairment losses	362	160	—	11	6	539
Disposals	(122)	—	(415)	(152)	(85)	(774)
At 31 December 2006 and 1 January 2007	5,352	345	509	7,444	1,077	14,727
Depreciation charge for the year	3,313	—	271	4,295	382	8,261
Impairment losses	470	51	—	10	5	536
Disposals	(431)	(247)	(205)	(47)	(225)	(1,155)
At 31 December 2007	8,704	149	575	11,702	1,239	22,369
Net carrying amount:						
At 31 December 2006	68,163	2,563	777	9,830	790	82,123
At 31 December 2007	65,844	2,518	1,029	10,087	508	79,986
Analysis of cost or valuation:						
At 31 December 2006						
At cost	4,624	2,908	1,286	5,864	200	14,882
At 30 June 2005 valuation	68,891	—	—	11,410	1,667	81,968
	73,515	2,908	1,286	17,274	1,867	96,850
At 31 December 2007						
At cost	7,394	2,667	1,604	10,695	355	22,715
At 30 June 2005 valuation	67,154	—	—	11,094	1,392	79,640
	74,548	2,667	1,604	21,789	1,747	102,355

(In RMB millions, unless otherwise stated)

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

	Group		Bank	
	2007	2006	2007	2006
Long term leases (over 50 years)				
Held in the PRC (other than Hong Kong)	6,483	6,909	6,483	6,909
Held in Hong Kong	292	89	216	—
Held in overseas	44	50	44	49
	6,819	7,048	6,743	6,958
Medium term leases (10 to 50 years)				
Held in the PRC (other than Hong Kong)	56,832	59,297	56,830	59,297
Held in Hong Kong	24	17	10	—
	56,856	59,314	56,840	59,297
Short term leases (less than 10 years)				
Held in the PRC (other than Hong Kong)	2,261	1,908	2,261	1,908
	65,936	68,270	65,844	68,163

In accordance with the relevant rules and regulations, subsequent to the Bank's transformation to a joint-stock company, the titleship of properties and buildings are subject to re-registration process and certain of which have not yet been completed with an aggregate net carrying amount of RMB4,680 million as at 31 December 2007 (2006: RMB5,109 million). The management is of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned properties and buildings and the aforesaid matter would not have any significant impact on the Group's financial position.

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

Group

31 December 2007	Cost	Accumulated depreciation and impairment	Net carrying amount
Properties and buildings	79,088	(26,891)	52,197
Construction in progress	2,667	(149)	2,518
Office equipment and computers	38,462	(28,281)	10,181
Motor vehicles	4,751	(4,499)	252
	124,968	(59,820)	65,148

(In RMB millions, unless otherwise stated)

31 December 2006	Cost	Accumulated depreciation and impairment	Net carrying amount
Properties and buildings	78,207	(24,123)	54,084
Construction in progress	2,908	(345)	2,563
Office equipment and computers	34,064	(24,373)	9,691
Motor vehicles	5,377	(4,362)	1,015
	120,556	(53,203)	67,353

Bank

31 December 2007	Cost	Accumulated depreciation and impairment	Net carrying amount
Properties and buildings	78,956	(26,852)	52,104
Construction in progress	2,667	(149)	2,518
Office equipment and computers	38,154	(28,067)	10,087
Motor vehicles	4,738	(4,490)	248
	124,515	(59,558)	64,957

31 December 2006	Cost	Accumulated depreciation and impairment	Net carrying amount
Properties and buildings	78,004	(24,027)	53,977
Construction in progress	2,908	(345)	2,563
Office equipment and computers	33,711	(24,100)	9,611
Motor vehicles	5,360	(4,350)	1,010
	119,983	(52,822)	67,161

Management is of the view that any difference between the carrying amounts and the fair values of the Group's property and equipment at the balance sheet date would not have significant impact on the financial position and results of the Group.

(In RMB millions, unless otherwise stated)

31. DEFERRED INCOME TAX

Deferred income tax assets and liabilities as at the balance sheet date are as follows:

	Group		Bank	
	2007	2006	2007	2006
Deferred tax assets	5,833	—	5,811	—
Deferred tax liabilities	(337)	(1,449)	—	(1,327)
	5,496	(1,449)	5,811	(1,327)

The movements in the major components of deferred tax assets and liabilities of the Group and of the Bank are as follows:

Group

	At 1 January 2007	Credited/ (charged) to income statement	Credited to equity	At 31 December 2007
Provision for impairment losses on loans and advances and other assets	1,481	3,203	—	4,684
Revaluation of available-for-sale investments	(1,007)	—	1,387	380
Changes in fair value of financial instruments at fair value through profit or loss	(1,776)	(1,403)	—	(3,179)
Others (note)	(147)	3,758	—	3,611
Total	(1,449)	5,558	1,387	5,496

	At 1 January 2006	Credited/ (charged) to income statement	Charged to equity	At 31 December 2006
Provision for impairment losses on loans and advances and other assets	928	553	—	1,481
Amortisation and interest recognition for short term debt securities	(541)	541	—	—
Revaluation of available-for-sale investments	(1,001)	—	(6)	(1,007)
Changes in fair value of financial instruments at fair value through profit or loss	(1,254)	(522)	—	(1,776)
Others	450	(597)	—	(147)
Total	(1,418)	(25)	(6)	(1,449)

Note: Includes the temporary differences arisen from early retirement benefits of RMB3,125 million.

(In RMB millions, unless otherwise stated)

Bank

	At 1 January 2007	Credited/ (charged) to income statement	Credited to equity	At 31 December 2007
Provision for impairment losses on loans and advances and other assets	1,481	3,190	—	4,671
Revaluation of available-for-sale investments	(879)	—	1,574	695
Changes in fair value of financial instruments at fair value through profit or loss	(1,776)	(1,403)	—	(3,179)
Others (note)	(153)	3,777	—	3,624
Total	(1,327)	5,564	1,574	5,811

	At 1 January 2006	Credited/ (charged) to income statement	Credited to equity	At 31 December 2006
Provision for impairment losses on loans and advances and other assets	928	553	—	1,481
Amortisation and interest recognition for short term debt securities	(541)	541	—	—
Revaluation of available-for-sale investments	(1,001)	—	122	(879)
Changes in fair value of financial instruments at fair value through profit or loss	(1,254)	(522)	—	(1,776)
Others	450	(603)	—	(153)
Total	(1,418)	(31)	122	(1,327)

Note: Includes the temporary differences arisen from early retirement benefits of RMB3,125 million.

32. OTHER ASSETS

	Group		Bank	
	2007	2006	2007	2006
Interest receivable	43,265	26,109	42,139	25,225
Repossessed assets	3,400	4,563	3,398	4,563
Land use rights	23,318	24,287	23,318	24,287
Settlement accounts	4,598	3,855	2,169	2,726
Others	17,237	12,711	15,429	11,276
	91,818	71,525	86,453	68,077

(In RMB millions, unless otherwise stated)

33. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

		Group		Bank	
	Notes	2007	2006	2007	2006
Structured deposits	(i)	10,558	25,033	10,278	24,632
Notes payable	(ii)	2,863	2,947	—	—
Certificates of deposit	(iii)	2,169	4,751	—	—
		15,590	32,731	10,278	24,632

(i) The fair value of structured deposits at 31 December 2007 was RMB187 million below the contractual amount at maturity (2006: RMB258 million above). The amounts of changes in the fair value of the financial liabilities that are attributable to changes in credit risk are considered not significant during the year presented and cumulatively as at 31 December 2007 and 31 December 2006.

(ii) The notes were issued in September 2004 by ICBCA (C.I.) Limited, an indirectly-held subsidiary of the Bank, at a coupon rate of 4.125% per annum and maturing on 16 September 2009. The differences between the fair value and the amount that the Group would be contractually required to pay upon maturity to the holders of these notes amounted to RMB1 million as at 31 December 2007 (2006: RMB114 million). The amounts of changes in the fair value of the financial liabilities that are attributable to changes in credit risk are considered not significant during the year presented and cumulatively as at 31 December 2007 and 31 December 2006.

(iii) Certificates of deposit are all issued by ICBC (Asia) to financial institutions and retail customers denoted in fixed or floating rate. The differences between the fair value and the amount that the Group would be contractually required to pay upon maturity to the holders of these certificates of deposit issued amounted to RMB11 million as at 31 December 2007 (2006: RMB51 million). The amounts of changes in the fair value of the financial liabilities that are attributable to changes in credit risk are considered not significant during the year presented and cumulatively as at 31 December 2007 and 31 December 2006.

The amounts of changes in the fair value of the financial liabilities that are attributable to changes in credit risk is determined as the amounts of changes in the fair value of the financial liabilities that are not attributable to changes in market conditions that give rise to market risk. The credit spread has not changed and the changes in fair value of the financial liabilities are attributable to the changes in other market factor components.

34. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2007	2006	2007	2006
Money market takings	77,565	32,824	70,772	30,475
Deposits	727,609	367,494	728,241	368,098
	805,174	400,318	799,013	398,573
Analysed by legal form of counterparty:				
Policy banks	367	209	367	209
State-owned banks	14,250	3,615	12,131	3,458
Joint-stock banks	33,961	16,930	33,075	16,369
Other financial institutions	756,596	379,564	753,440	378,537
	805,174	400,318	799,013	398,573

(In RMB millions, unless otherwise stated)

35. REPURCHASE AGREEMENTS

	Group		Bank	
	2007	2006	2007	2006
Analysed by counterparty:				
Banks	105,199	12,992	107,256	13,501
Other financial institutions	88,309	35,618	88,309	35,618
	193,508	48,610	195,565	49,119
Analysed by collateral:				
Securities	190,174	47,182	190,174	47,182
Bills	—	493	—	493
Loans	3,334	935	5,391	1,444
	193,508	48,610	195,565	49,119

36. DUE TO CUSTOMERS

	Group		Bank	
	2007	2006	2007	2006
Demand deposits:				
Corporate customers	2,378,392	1,985,647	2,364,089	1,975,491
Personal customers	1,182,787	1,105,575	1,174,888	1,099,121
Others	115,030	93,686	115,030	93,686
Time deposits:				
Corporate customers	1,128,417	929,804	1,044,464	861,745
Personal customers	2,093,787	2,211,678	2,071,135	2,196,728
	6,898,413	6,326,390	6,769,606	6,226,771

37. SUBORDINATED BONDS

As approved by the PBOC and CBRC, the Bank issued callable subordinated bonds of RMB35,000 million through open market bidding in 2005. The relevant information on these subordinated bonds is set out below:

Name	Issued date	Issued price	Coupon rate	Value date	Maturity date	Circulation date	Issued amount	Notes
05 ICBC 01 Bond	19 August 2005	RMB100	3.11%	29 August 2005	29 August 2015	30 September 2005	RMB13,000 million	(i)
05 ICBC 02 Bond	19 August 2005	RMB100	3.77%	6 September 2005	6 September 2020	11 October 2005	RMB13,000 million	(ii)
05 ICBC 03 Bond	19 August 2005	RMB100	Base rate +1.05%	14 September 2005	14 September 2015	11 October 2005	RMB9,000 million	(iii)

Notes:

(i) The Bank has the option to redeem all or part of the bonds at face value on 29 August 2010. If the Bank does not exercise this option, the annual coupon rate will increase by 3% thereafter.

(ii) The Bank has the option to redeem all or part of the bonds at face value on 6 September 2015. If the Bank does not exercise this option, the annual coupon rate will increase by 3% thereafter.

(iii) The base rate is determined based on the weighted average of the PRC inter-bank money market 7-day repo rates. The Bank has the option to redeem all or part of the bonds at face value on 14 September 2010. If the Bank does not exercise this option, the interest margin of the bonds will increase by 1% thereafter.

38. OTHER LIABILITIES

	Group		Bank	
	2007	2006	2007	2006
Interest payable	62,744	50,863	61,917	50,114
Settlement accounts	24,618	26,538	22,277	25,400
Salaries and welfare payables (i)	18,552	6,677	18,403	6,525
Sundry tax payables	7,199	5,618	7,178	5,612
Bank drafts	4,725	4,856	4,680	4,811
Payables for bonds purchased	12,865	25,870	12,865	25,870
Dividend payable	—	10,146	—	10,146
Payables to the MOF and Central SAFE Investments Limited ("Huijin") (ii)	—	24,448	—	24,448
Others	19,954	17,530	19,484	17,152
	150,657	172,546	146,804	170,078

(i) Includes early retirement benefits of RMB12,500 million with details set out on note 12 to the financial statements.

(ii) The balance as at 31 December 2006 related to the sale of shares held by MOF and Huijin of RMB12,224 million each through the Bank's H-share offering, which has been settled during the year.

39. SHARE CAPITAL

Shares

	2007		2006	
	Number of shares (millions)	Nominal value	Number of shares (millions)	Nominal value
Registered, issued and fully paid:				
H-shares of RMB1 each	83,057	83,057	83,057	83,057
A-shares of RMB1 each	250,962	250,962	250,962	250,962
	334,019	334,019	334,019	334,019

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

Share appreciation right plan

A share appreciation right plan was approved in 2006, which allows the share appreciation rights to be granted to eligible participants including directors, supervisors, senior management and other key personnel designated by the board of directors. The share appreciation rights will be granted and exercised based on the price of the Bank's H-shares and will be valid for ten years. As at the date of this report, no share appreciation right has been granted.

(In RMB millions, unless otherwise stated)

40. RESERVES

The movements in reserves and retained profits of the Bank during the year are set out below.

	Reserves						
	Capital reserve	Surplus reserves	General reserve	Investment revaluation reserve	Foreign currency translation reserve	Total	Retained profits
Balance as at 1 January 2006	(2,014)	375	1,700	2,032	(138)	1,955	4,895
Profit for the year	—	—	—	—	—	—	49,185
Net change in the fair value of available-for-sale investments	—	—	—	(268)	—	(268)	—
Reserve realised on disposal of available-for-sale investments	—	—	—	20	—	20	—
Foreign currency translation	—	—	—	—	27	27	—
Issue of shares	110,685	—	—	—	—	110,685	—
Share issue expenses	(3,652)	—	—	—	—	(3,652)	—
Dividend — 2005 final	—	—	—	—	—	—	(3,537)
Dividend — 2006 interim	—	—	—	—	—	—	(18,593)
Dividend — 2006 special	—	—	—	—	—	—	(10,146)
Appropriation to surplus reserves (note)	—	5,086	—	—	—	5,086	(5,086)
Appropriation to general reserve	—	—	11,019	—	—	11,019	(11,019)
Balance as at 31 December 2006 and 1 January 2007	105,019	5,461	12,719	1,784	(111)	124,872	5,699
Profit for the year	—	—	—	—	—	—	80,933
Net change in the fair value of available-for-sale investments	—	—	—	(6,320)	—	(6,320)	—
Reserve realised on disposal/impairment of available-for-sale investments	—	—	—	2,130	—	2,130	—
Foreign currency translation	—	—	—	—	30	30	—
Dividend — 2006 final	—	—	—	—	—	—	(5,344)
Appropriation to surplus reserves (note)	—	8,072	—	—	—	8,072	(8,072)
Appropriation to general reserve	—	—	28,082	—	—	28,082	(28,082)
Balance as at 31 December 2007	105,019	13,533	40,801	(2,406)	(81)	156,866	45,134

Note: Includes the appropriation made by overseas branches in the amount of RMB7 million (2006: RMB11 million).

(a) Capital reserve

Pursuant to the restructuring in 2005, the paid-up capital, reserves and accumulated losses as determined under the generally accepted accounting principles in the PRC, were converted into the Bank's issued share capital upon its incorporation. In the preparation of the Group's financial statements, the paid-up capital and all the then existing reserves and accumulated losses as determined under IFRSs were accordingly eliminated, with the resulting difference dealt with in the capital reserve. Subsequently, during the year ended 31 December 2006, the share premium of new shares issued, after deducting related share issue expenses, was also accounted for under the capital reserve.

(b) Surplus reserves

The surplus reserves consist of the statutory surplus reserve and the discretionary surplus reserve.

(i) Statutory surplus reserve

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

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

(ii) Discretionary surplus reserve

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

The Bank's overseas entities appropriate their profits to the surplus reserves in accordance with relevant regulations promulgated by the local regulatory bodies.

Pursuant to the resolution of the meeting of the board of directors held on 25 March 2008, an appropriation of 10% of the profit for the year determined under the generally accepted accounting principles in the PRC to the statutory surplus reserve, in the amount of RMB8,065 million (2006: RMB5,075 million) was approved.

(c) Other reserves

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

The Bank's subsidiaries appropriate their profit to the general reserve according to the applicable industrial regulations.

Pursuant to the resolution of the meeting of the board of directors held on 25 March 2008, an appropriation to the general reserve amounted to RMB28,082 million (2006: RMB11,019 million) was approved.

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

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

(In RMB millions, unless otherwise stated)

(d) Distributable profit

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

41. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary

The assessment of fair values of the identifiable assets and liabilities has not been completed. The acquisition of ICBC (Indonesia) has been accounted for provisionally based on the latest available financial statements of ICBC (Indonesia) before the acquisition date.

Net assets	90
Minority interests	(9)
Goodwill arising on acquisition	69
Total consideration	150

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

Cash flow on acquisition of a subsidiary:	
Cash acquired	222
Cash consideration	(150)
Unpaid consideration	72
Net cash inflow	144

From the date of acquisition, ICBC (Indonesia) has contributed a loss of RMB4 million to the consolidated profit of the Group for the year ended 31 December 2007.

(b) Analysis of balances of cash and cash equivalents

	Notes	2007	2006
Cash on hand	20	39,123	31,446
Balances with central banks other than restricted deposits	20	83,328	74,704
Nostro accounts with banks and other financial institutions with original maturity of three months or less	21	25,526	7,547
Placements with banks and other financial institutions with original maturity of three months or less	21	144,257	151,372
Reverse repurchase agreements with original maturity of three months or less	25	9,453	10,291
		301,687	275,360

(In RMB millions, unless otherwise stated)

(c) Significant non-cash transactions

	2007	2006
Payable to MOF capitalised as capital	—	8,028
Receipt of a special PBOC bill for settlement of amounts due from Huarong	—	4,325
Disposal of impaired loans and converted into other assets	—	3,562

42. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

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

	Group		Bank	
	2007	2006	2007	2006
Authorised, but not contracted for	2,212	2,496	2,209	2,479
Contracted, but not provided for	45,943	526	45,943	526
	48,155	3,022	48,152	3,005

At the balance sheet date, the Bank entered into agreements in relation to the acquisition of equity interests in subsidiaries and an associate at a total consideration of approximately RMB45,035 million.

(b) Operating lease commitments

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

	Group		Bank	
	2007	2006	2007	2006
Within one year	1,635	1,387	1,454	1,265
Between the second and fifth year, inclusive	3,741	2,917	3,184	2,661
After five years	1,503	1,443	1,316	1,346
	6,879	5,747	5,954	5,272

(c) Credit commitments

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

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

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

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

(In RMB millions, unless otherwise stated)

	Group		Bank	
	2007	2006	2007	2006
Letters of credit issued	111,254	74,531	107,287	71,793
Guarantees issued	191,748	171,205	189,445	168,410
Acceptances	155,073	134,684	155,073	134,684
Irrevocable loan commitments with original maturity of:				
Not more than one year	13,281	21,799	12,229	21,664
More than one year	61,101	56,482	46,591	39,269
Unconditionally cancelable loan commitments	151,094	146,316	81,328	114,745
Undrawn credit card limit	106,136	89,477	103,670	88,709
	789,687	694,494	695,623	639,274

	Group		Bank	
	2007	2006	2007	2006
Credit risk weighted amounts of credit commitments	384,545	386,513	373,275	376,710

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

(d) Legal proceedings

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

	Group and Bank	
	2007	2006
Claimed amounts	2,999	3,722

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

(e) Redemption commitments of government bonds

As an underwriting agent of the Government, the Bank underwrites certain PRC government bonds and sells the bonds to the general public. The Bank is obliged to redeem the bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds plus any interest accrued up to the redemption date. As at 31 December 2007, the Bank had underwritten and sold bonds with an accumulated amount of RMB156,718 million (2006: RMB205,522 million) to the general public, and that have not yet matured nor been redeemed. The directors expect that the amount of redemption of these government bonds through the Bank prior to maturity will not be material.

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

(In RMB millions, unless otherwise stated)

(f) Underwriting obligations

At the balance sheet date, the unexpired underwriting obligations in respect of banks and other financial institutions bonds are as follows:

	Group and Bank	
	2007	2006
Underwriting obligations	7,500	—

43. DESIGNATED DEPOSITS AND LOANS

	Group and Bank	
	2007	2006
Designated deposits	153,745	125,020
Designated loans	153,422	124,189

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

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

44. ASSETS PLEDGED AS SECURITY

As at 31 December 2007, the assets of the Group and of the Bank including securities, bills and loans which have been pledged for the repurchase agreements amounted to approximately RMB193,508 million (2006: RMB48,610 million) and RMB195,565 million (2006: RMB49,119 million), respectively.

45. FIDUCIARY ACTIVITIES

The Group provides custody and asset management services to third parties. Revenue from such activities is included in "Fee and commission income" set out in note 7 above. Those assets held in a fiduciary capacity are not included in the Group's consolidated balance sheet.

46. RELATED PARTY DISCLOSURES

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

(a) The MOF

As at 31 December 2007, the MOF directly owned approximately 35.3% of the issued share capital of the Bank. The Group enters into banking transactions with the MOF in its ordinary course of business, including the subscription and redemption of government bonds. Details of the material transactions are as follows:

	2007	2006
Balances at end of the year:		
The PRC government bonds and the special government bond	510,088	431,717
MOF receivable (note 27(a)(iii))	193,981	226,378
Payable to MOF (note 38)	—	12,224

(In RMB millions, unless otherwise stated)

	2007	2006
Transactions during the year:		
Subscription of PRC government bonds	101,275	123,570
Redemption of PRC government bonds	61,133	34,140
Interest income on bonds	15,544	11,154
Repayment of MOF receivable (note 27(a)(iii))	32,397	19,622
Interest income on MOF receivable	6,377	7,418

	2007 %	2006 %
The interest rate range during the year is as follows:		
Bond investments	1.6 to 10.2	1.6 to 11.8

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

(b) Huijin

Huijin was incorporated as a wholly-state-owned investment company with the approval of the State Council. It was established to hold certain equity investments on behalf of the State Council, and to represent the Government in exercising its investor's rights and obligations in certain financial institutions. As at 31 December 2007, Huijin directly owned approximately 35.3% of the issued share capital of the Bank.

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

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

The fair value of the option as at 31 December 2007 was RMB11,434 million (2006: RMB8,696 million), which is included in derivative financial assets. The premium payable in respect of the option was stated at its discounted value of RMB2,938 million as at 31 December 2007 (2006: RMB2,849 million) and is included in other liabilities (note 38). The changes in fair value of the option and the changes in the premium payable for the year, amounted to RMB2,649 million (2006: RMB1,279 million) in aggregate, are included in "Loss from foreign exchange and foreign exchange products, net" and "Interest expense" respectively.

(In RMB millions, unless otherwise stated)

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

	2007	2006
Balances at end of the year:		
Deposits from Huijin	20,776	14,911
Payable to Huijin (note 38)	—	12,224

	2007	2006
Transactions during the year:		
Interest expenses on deposits from Huijin	737	176

	2007 %	2006 %
The interest rate range during the year is as follow:		
Deposits from Huijin	0.7 to 6.1	0.7 to 5.1

Huijin has equity interests in certain other banks and financial institutions under the direction of the Government. The Group enters into transactions with these banks and financial institutions in its ordinary course of business and on normal commercial terms. The management considers that these banks and financial institutions are competitors of the Group. Significant transactions during the year conducted with these banks and financial institutions, and the corresponding balances as at 31 December 2007 are as follows:

	2007	2006
Balances at end of the year:		
Debt securities purchased	13,643	7,997
Due from these banks and financial institutions	12,093	19,774
Due to these banks and financial institutions	46,786	21,064

	2007	2006
Transactions during the year:		
Interest income from debt securities purchased	527	398
Interest income from amounts due from these banks and financial institutions	633	103
Interest expenses on amounts due to these banks and financial institutions	766	400

	2007 %	2006 %
Interest rate ranges during the year are as follows:		
Debt securities purchased	1.3 to 8.3	3.7 to 8.3
Due from these banks and financial institutions	0 to 13.0	0 to 10.0
Due to these banks and financial institutions	0 to 7.3	0 to 13.0

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

(In RMB millions, unless otherwise stated)

(c) Goldman Sachs Group Inc.

Goldman Sachs Group Inc. ("Goldman Sachs") is considered to have significant influence over the Bank in view of its nominated representative serving on the Bank's board of directors. Significant transactions during the year conducted with Goldman Sachs, and the corresponding balances as at 31 December 2007 are as follows:

	2007	2006
Balances at end of the year:		
Debt securities purchased	2,276	4,993
Deposits from Goldman Sachs	—	1,554

	2007	2006
Transactions during the year:		
Interest income from debt securities purchased	271	143
Interest expense on deposits from Goldman Sachs	41	8

	2007 %	2006 %
Interest rate ranges during the year are as follows:		
Debt securities purchased	3.4 to 6.0	2.8 to 6.0
Deposits from Goldman Sachs	5.1 to 5.3	5.27

The major transactions between the Group and Goldman Sachs comprised debt securities purchased and deposits, as well as the interest income and expense arising from those transactions. In the opinion of the management, the transactions between the Group and Goldman Sachs are conducted under normal commercial terms and conditions.

(d) National Council for Social Security Fund

The National Council for Social Security Fund (the "SSF") has substantial equity interests in the Bank. Significant transactions during the year conducted with the SSF and the corresponding balances as at 31 December 2007 are as follows:

	2007	2006
Balances at end of the year:		
Deposits from SSF	9,500	13,500

	2007	2006
Transactions during the year:		
Interest expense on deposits from SSF	581	491

	2007 %	2006 %
The interest rate range during the year is as follow:		
Deposits from SSF	0.7 to 5.5	3.5 to 4.1

The major transactions between the Group and the SSF comprised deposits and the corresponding interest expense. In the opinion of the management, the transactions between the Group and the SSF are conducted under normal commercial terms and conditions.

(e) Associates

Balances with associates at end of the year:

	2007	2006
Due from an associate	157	—
Due to associates	47	31

The transactions between the Group and its associates mainly comprised loans and advances to customers, deposits and placements from banks and other financial institutions and the corresponding interest income and interest expenses. In the opinion of the management, the transactions between the Group and its associates were conducted and priced under normal commercial terms and conditions. As the interest income and expense are not material, it has not been separately disclosed.

(f) Key management personnel

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

The aggregate compensation for the year, other than those disclosed in note 13 above, is as follows:

	2007 RMB'000	2006 RMB'000
Short-term employment benefits	9,869	6,580
Post-employment benefits	616	481
	10,485	7,061

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

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

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

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

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

47. SEGMENT INFORMATION

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

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

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

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

(a) Business segments

The Group comprises the following main business segments:

Corporate banking

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

Personal banking

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

Treasury operations

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

(In RMB millions, unless otherwise stated)

Others

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

	Corporate banking	Personal banking	Treasury	Others	Total
Year ended 31 December 2007					
External net interest income/(expense)	143,512	(21,968)	102,921	—	224,465
Internal net interest income/(expense)	(28,160)	84,742	(56,582)	—	—
Net fee and commission income	10,778	23,400	206	—	34,384
Other operating income/(expense), net	107	—	(5,113)	2,186	(2,820)
Operating income	126,237	86,174	41,432	2,186	256,029
Operating expenses	(48,006)	(38,603)	(12,467)	(4,185)	(103,261)
Impairment losses on:					
Loans and advances to customers	(30,336)	(2,725)	—	—	(33,061)
Others	(277)	(217)	(3,329)	(522)	(4,345)
Operating profit/(loss)	47,618	44,629	25,636	(2,521)	115,362
Share of profits and losses of associates	—	—	—	16	16
Profit/(loss) before tax	47,618	44,629	25,636	(2,505)	115,378
Income tax expense					(33,124)
Profit for the year					82,254
Other segment information:					
Depreciation	3,674	2,914	1,512	218	8,318
Amortisation	528	402	222	22	1,174
Capital expenditure	4,158	3,299	1,712	247	9,416
As at 31 December 2007					
Segment assets	3,304,163	800,948	4,555,289	23,140	8,683,540
Investments in associates	—	—	—	172	172
Total assets	3,304,163	800,948	4,555,289	23,312	8,683,712
Segment liabilities	3,718,053	3,346,591	1,063,941	11,451	8,140,036
Other segment information:					
Credit commitments	683,551	106,136	—	—	789,687

(In RMB millions, unless otherwise stated)

	Corporate banking	Personal banking	Treasury	Others	Total
Year ended 31 December 2006					
External net interest income/(expense)	119,204	(32,028)	76,366	—	163,542
Internal net interest income/(expense)	(31,415)	84,796	(53,381)	—	—
Net fee and commission income	6,682	9,489	173	—	16,344
Other operating income/(expense), net	(2,014)	—	2,217	1,549	1,752
Operating income	92,457	62,257	25,375	1,549	181,638
Operating expenses	(33,519)	(33,142)	(7,904)	(2,832)	(77,397)
Impairment losses on:					
Loans and advances to customers	(27,951)	(2,063)	—	—	(30,014)
Others	(513)	—	40	(1,702)	(2,175)
Operating profit/(loss)	30,474	27,052	17,511	(2,985)	72,052
Share of profits and losses of associates	—	—	—	13	13
Profit/(loss) before tax	30,474	27,052	17,511	(2,972)	72,065
Income tax expense					(22,185)
Profit for the year					49,880
Other segment information:					
Depreciation	3,955	4,411	1,073	183	9,622
Amortisation	533	457	98	18	1,106
Capital expenditure	2,672	2,979	725	123	6,499
As at 31 December 2006					
Segment assets	3,059,987	642,691	3,799,188	6,758	7,508,624
Investments in associates	—	—	—	127	127
Total assets	3,059,987	642,691	3,799,188	6,885	7,508,751
Segment liabilities	3,168,662	3,371,670	492,996	4,422	7,037,750
Other segment information:					
Credit commitments	605,017	89,477	—	—	694,494

(b) Geographical segments

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

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

The details of the geographical segments are as follows:

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

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

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

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

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

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

(In RMB millions, unless otherwise stated)

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

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

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Eliminations	Total
Year ended 31 December 2007										
External net interest income	105,793	40,044	20,628	11,521	15,892	20,918	4,407	5,262	—	224,465
Internal net interest income/(expense)	(72,274)	11,343	9,256	28,335	9,574	8,961	6,090	(1,285)	—	—
Net fee and commission income	2,389	6,546	5,900	6,049	4,220	5,292	2,252	1,736	—	34,384
Other operating income/(expense), net	(6,621)	995	402	183	586	1,344	(36)	327	—	(2,820)
Operating income	29,287	58,928	36,186	46,088	30,272	36,515	12,713	6,040	—	256,029
Operating expenses	(5,666)	(17,840)	(12,689)	(18,174)	(18,153)	(19,299)	(9,436)	(2,004)	—	(103,261)
Impairment losses on:										
Loans and advances to customers	209	(6,050)	(5,349)	(8,241)	(5,013)	(5,147)	(2,711)	(759)	—	(33,061)
Others	(3,142)	(130)	(128)	448	(209)	(456)	(481)	(247)	—	(4,345)
Operating profit	20,688	34,908	18,020	20,121	6,897	11,613	85	3,030	—	115,362
Share of profits and losses of associates	6	—	—	—	—	—	—	10	—	16
Profit before tax	20,694	34,908	18,020	20,121	6,897	11,613	85	3,040	—	115,378
Income tax expense										(33,124)
Profit for the year										82,254
Other segment information:										
Depreciation	892	1,346	1,032	1,420	1,335	1,417	814	62	—	8,318
Amortisation	347	192	74	124	211	164	56	6	—	1,174
Capital expenditure	1,453	1,949	1,074	1,650	1,308	1,416	431	135	—	9,416
As at 31 December 2007										
Segment assets	4,575,914	1,754,819	1,115,718	2,083,118	1,022,925	1,089,117	539,545	251,786	(3,755,235)	8,677,707
Investments in associates	—	—	—	—	—	—	—	172	—	172
Unallocated assets										5,833
Total assets										8,683,712
Segment liabilities	4,296,692	1,687,573	1,081,279	2,034,682	987,909	1,049,693	522,089	201,349	(3,755,235)	8,106,031
Unallocated liabilities										34,005
Total liabilities										8,140,036
Other segment information:										
Credit commitments	132,988	188,336	69,492	161,591	49,155	56,028	13,029	119,068	—	789,687

(In RMB millions, unless otherwise stated)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Eliminations	Total
Year ended 31 December 2006										
External net interest income	80,631	28,431	13,140	6,551	12,386	15,161	3,015	4,227	—	163,542
Internal net interest income/(expense)	(65,579)	8,589	8,242	26,780	8,609	8,655	5,889	(1,185)	—	—
Net fee and commission income	747	3,511	2,505	2,983	2,277	2,342	986	993	—	16,344
Other operating income/(expense), net	(3,173)	1,457	936	699	739	741	164	189	—	1,752
Operating income	12,626	41,988	24,823	37,013	24,011	26,899	10,054	4,224	—	181,638
Operating expenses	(6,115)	(13,138)	(9,424)	(12,952)	(12,957)	(14,063)	(6,992)	(1,756)	—	(77,397)
Impairment losses on:										
Loans and advances to customers	(2,111)	(3,116)	(2,758)	(4,629)	(3,655)	(6,454)	(7,000)	(291)	—	(30,014)
Others	—	(203)	(23)	(668)	(510)	(565)	(245)	39	—	(2,175)
Operating profit/(loss)	4,400	25,531	12,618	18,764	6,889	5,817	(4,183)	2,216	—	72,052
Share of profits and losses of associates	8	—	—	—	—	—	—	5	—	13
Profit/(loss) before tax	4,408	25,531	12,618	18,764	6,889	5,817	(4,183)	2,221	—	72,065
Income tax expense										(22,185)
Profit for the year										49,880
Other segment information:										
Depreciation	856	1,501	1,120	1,627	1,623	1,789	1,049	57	—	9,622
Amortisation	315	167	62	108	177	154	68	55	—	1,106
Capital expenditure	983	1,104	583	1,362	965	1,110	273	119	—	6,499
As at 31 December 2006										
Segment assets	4,205,413	1,484,222	921,113	1,845,511	912,074	983,362	503,022	208,601	(3,554,694)	7,508,624
Investments in associates	74	—	—	—	—	—	—	53	—	127
Total assets	4,205,487	1,484,222	921,113	1,845,511	912,074	983,362	503,022	208,654	(3,554,694)	7,508,751
Segment liabilities	3,806,740	1,459,101	909,847	1,827,843	907,456	979,484	508,779	175,359	(3,554,694)	7,019,915
Unallocated liabilities										17,835
Total liabilities										7,037,750
Other segment information:										
Credit commitments	124,432	158,164	68,919	159,544	45,045	50,603	12,270	75,517	—	694,494

48. FINANCIAL INSTRUMENTS RISK MANAGEMENT

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

The board of directors has ultimate responsibility for the Bank's risk management and oversees the risk management functions through the Risk Management Committee and the Audit Committee of the Board.

The President supervises the risk management strategies and reports directly to the Board. He chairs two management committees including the Risk Management Committee and the Asset and Liability Management Committee at the head office level. These two committees formulate and make recommendations in respect of risk management strategies and policies through the President to the Risk Management Committee of the Board. The Bank's Chief Risk Officer assists the President to supervise and manage various risks of the Bank.

The Bank has also defined departments monitoring financial risks within the Bank, including the Credit Management Department, the Credit Review Department and the Credit Rating and Facility Department monitoring credit risk; the Risk Management Department together with the Asset and Liability Management Department monitoring market and liquidity risks; and the Internal Control and Compliance Department monitoring operational risk. The Risk Management Department at the head office is primarily responsible for coordinating and establishing a comprehensive risk management framework, preparing consolidated reports on the Bank's credit risk, market risk and operational risk and reports directly to the Chief Risk Officer.

The Bank maintains a dual-reporting line structure at the branch level for risk management purposes. Under this structure, the Risk Management Departments of the branches report to both the corresponding Risk Management Departments at the head office and the management of the relevant branches.

(a) Credit risk

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate advance, commitment or investment of funds. The Group exposed to credit risk primarily due to loans, guarantees and other payment commitments.

The principal features of the Group's credit risk management function include:

- Centralised credit management procedures;
- Risk management rules and procedures that focus on risk control throughout the entire credit business process, including customer investigation and credit rating, granting of credit limits, loan evaluation, loan review and approval and post-disbursement loan monitoring;
- Stringent qualification system for the loan approval officers; and
- Information management systems designed to enable a real time risk monitoring.

To enhance the credit risk management practices, the Group also launches training programs periodically for the credit officers at different levels.

In addition to the credit risk exposures on credit-related assets and due from banks and other financial institutions, credit risk also arises in other areas. For instance, credit risk exposure also arises from derivative financial instruments which is, however, limited to those with positive fair values, as recorded in the balance sheet. In addition, the Group also makes available to its customers guarantees which may require that the Group makes payments on their behalf. Such payments are collected from customers based on the terms of the agreements signed. They expose the Group to similar risks as loans and these are mitigated by the same control processes and policies.

Risk concentration

Credit risk is often greater when counterparties are concentrated in one single industry or geographical location or have comparable economic characteristics. The Group's credit risk is diversified by investing in different industry sectors and geographical locations.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or whether there are any liquidity problems of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed impairment and collectively assessed impairment.

Individually assessed loans

All corporate loans and discounted bills are individually reviewed for objective evidence of impairment and classified based on a five-tier classification system. Corporate loans and discounted bills that are classified as substandard, doubtful or loss are assessed individually for impairment.

If there is objective evidence that an impairment loss on a loan or advance has incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the income statement. In determining allowances on individual basis, the following factors are considered:

- The sustainability of the counterparty's business plan;
- Its ability to improve performance once a financial difficulty has arisen;
- Projected receipts and the expected payout should bankruptcy ensue;
- The availability of other financial support and the realisable value of collateral; and
- The timing of the expected cash flows.

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 impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively Assessed Loans

Loans that are assessed for impairment losses on a collective basis include the following:

- Homogeneous groups of loans, including all personal loans; and
- All loans for which no impairment can be identified individually, either due to the absence of any loss events or due to an inability to measure reliably the impact of potential loss events on future cash flows.

For the purpose of collective assessment, assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

Objective evidence of impairment losses on a collective basis consists of the observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans since the initial recognition of those loans, including:

- Adverse changes in the payment status of borrowers in the group of loans; and
- National or local economic conditions that correlate with defaults on assets in the portfolio of loans.

Homogenous Groups of Loans Not Considered Individually Significant

For homogeneous groups of loans, the Group uses an analysis of historical trends of probability of default and amount of consequential loss, as well as an evaluation of current economic conditions that may have a consequential impact on inherent losses in the portfolio.

Individually Assessed Loans with No Objective Evidence of Impairment

When no impairment can be identified for individual loans, either due to the absence of any loss events or due to an inability to measure reliably the impact of potential loss events on future cash flows, these loans are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This loss covers those loans that were impaired at the balance sheet date but which would not be individually identified as impaired until some time in the future. The collective impairment loss is assessed after taking into account:

- Historical loss experience in portfolios of similar risk characteristics; and
- The current economic and credit environment and, whether in management's experience, these indicate that the actual level of incurred but not yet identified losses is likely to be greater or less than that suggested by historical experience.

As soon as information is available that specifically identifies objective evidence of impairment on individual assets in a pool, those assets are excluded and individually assessed. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment.

Collaterals

The amount and type of collaterals required depend on the assessment of the credit risk of the counterparty. Guidelines are in place specifying the types of collateral and valuation parameters which can be accepted.

The main types of collateral obtained are as follows:

- For reverse repurchase transactions, mainly collateralised by bills, loans or investment securities;
- For commercial lending, mainly collateralised by charges over land and properties and other assets of the borrowers; and
- For retail lending, mainly collateralised by mortgages over residential properties.

Management monitors the market value of collaterals periodically and requests for additional collaterals in accordance with the underlying agreement when it is considered necessary.

It is the Group's policy to dispose of repossessed assets in an orderly manner. In general, the Group does not occupy repossessed assets for business use.

(In RMB millions, unless otherwise stated)

(i) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

As at the balance sheet date, the maximum credit risk exposure of the Group and of the Bank without taking account of any collateral and other credit enhancements is set out below:

	Group		Bank	
	2007	**2006**	**2007**	**2006**
Balances with central banks	1,103,223	672,211	1,102,562	672,032
Due from banks and other financial institutions	199,758	206,506	174,997	169,454
Financial assets held for trading	31,501	19,345	31,485	19,215
Financial assets designated at fair value through profit or loss	2,785	1,768	1,142	173
Derivative financial assets	22,769	10,539	22,358	10,364
Reverse repurchase agreements	75,880	39,218	75,880	39,218
Loans and advances to customers	3,957,542	3,533,978	3,838,922	3,454,432
Financial investments				
— Receivables	1,211,767	1,106,163	1,211,767	1,106,163
— Held-to-maturity debt securities	1,330,085	1,228,937	1,334,508	1,236,211
— Available-for-sale debt securities	524,723	499,108	511,113	488,264
Others	59,136	40,381	55,420	38,091
	8,519,169	7,358,154	8,360,154	7,233,617
Credit commitments	789,687	694,494	695,623	639,274
Total credit risk exposure	9,308,856	8,052,648	9,055,777	7,872,891

(ii) Risk concentrations

Credit risk is often greater when counterparties are concentrated in one single industry or geographic location or have comparable economic features. Besides, different geographic areas and industrial sectors have their unique characteristics in terms of economic development, and could present a different credit risk.

By geographic segment

The following tables break down the Group's and the Bank's maximum credit risk exposure at their carrying amounts, as categorised by the geographic segment.

(In RMB millions, unless otherwise stated)

Group

31 December 2007

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Total
Balances with central banks	990,607	23,534	17,386	39,254	8,819	17,133	5,358	1,132	1,103,223
Due from banks and other financial institutions	119,319	8,382	6,824	8,307	4,269	1,372	613	50,672	199,758
Financial assets held for trading	31,485	—	—	—	—	—	—	16	31,501
Financial assets designated at fair value through profit or loss	—	—	—	—	—	—	—	2,785	2,785
Derivative financial assets	20,340	548	504	114	182	177	304	600	22,769
Reverse repurchase agreements	47,346	4,615	6,995	10,272	6,121	101	430	—	75,880
Loans and advances to customers	170,777	1,019,596	594,918	708,864	509,742	592,264	208,173	153,208	3,957,542
Financial investments									
— Receivables	1,205,767	—	—	—	—	—	6,000	—	1,211,767
— Held-to-maturity debt securities	1,137,367	40,128	22,744	103,953	1,105	1,415	13,668	9,705	1,330,085
— Available-for-sale debt securities	422,538	22,723	13,394	21,383	7,198	9,405	4,125	23,957	524,723
Other assets	32,548	4,418	3,037	4,660	3,860	4,413	1,281	4,919	59,136
	4,178,094	1,123,944	665,802	896,807	541,296	626,280	239,952	246,994	8,519,169
Credit commitments	132,988	188,336	69,492	161,591	49,155	56,028	13,029	119,068	789,687
	4,311,082	1,312,280	735,294	1,058,398	590,451	682,308	252,981	366,062	9,308,856

31 December 2006

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Total
Balances with central banks	577,841	21,349	13,949	30,593	8,667	13,984	5,337	491	672,211
Due from banks and other financial institutions	136,606	6,615	4,941	3,620	202	972	616	52,934	206,506
Financial assets held for trading	19,211	4	—	—	—	—	—	130	19,345
Financial assets designated at fair value through profit or loss	—	—	—	—	—	—	—	1,768	1,768
Derivative financial assets	9,309	143	160	74	44	42	177	590	10,539
Reverse repurchase agreements	9,029	150	3,700	20,364	1,634	30	4,311	—	39,218
Loans and advances to customers	258,256	892,018	500,845	623,163	453,688	515,338	179,660	111,010	3,533,978
Financial investments									
— Receivables	1,100,164	—	—	—	—	—	5,999	—	1,106,163
— Held-to-maturity debt securities	1,112,887	38,007	19,371	24,966	3,077	2,651	16,032	11,946	1,228,937
— Available-for-sale debt securities	434,933	20,525	6,966	9,229	1,345	1,874	786	23,450	499,108
Other assets	19,194	2,968	2,156	4,471	3,538	4,181	982	2,891	40,381
	3,677,430	981,779	552,088	716,480	472,195	539,072	213,900	205,210	7,358,154
Credit commitments	124,432	158,164	68,919	159,544	45,045	50,603	12,270	75,517	694,494
	3,801,862	1,139,943	621,007	876,024	517,240	589,675	226,170	280,727	8,052,648

(In RMB millions, unless otherwise stated)

Bank

31 December 2007

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Total
Balances with central banks	990,607	23,534	17,386	39,254	8,819	17,133	5,358	471	1,102,562
Due from banks and other financial institutions	130,741	8,507	9,826	8,626	4,304	1,575	630	10,788	174,997
Financial assets held for trading	31,485	—	—	—	—	—	—	—	31,485
Financial assets designated at fair value through profit or loss	—	—	—	—	—	—	—	1,142	1,142
Derivative financial assets	20,349	548	504	119	182	177	304	175	22,358
Reverse repurchase agreements	47,346	4,615	6,995	10,272	6,121	101	430	—	75,880
Loans and advances to customers	170,777	1,019,596	594,918	708,864	509,742	592,264	208,173	34,588	3,838,922
Financial investments									
— Receivables	1,205,767	—	—	—	—	—	6,000	—	1,211,767
— Held-to-maturity debt securities	1,143,885	40,128	22,744	103,953	1,105	1,415	13,668	7,610	1,334,508
— Available-for-sale debt securities	422,259	22,723	13,394	21,383	7,198	9,405	4,125	10,626	511,113
Other assets	33,039	4,419	3,076	4,665	3,861	4,414	1,281	665	55,420
	4,196,255	1,124,070	668,843	897,136	541,332	626,484	239,969	66,065	8,360,154
Credit commitments	132,988	188,336	69,492	161,591	49,155	56,028	13,029	25,004	695,623
	4,329,243	1,312,406	738,335	1,058,727	590,487	682,512	252,998	91,069	9,055,777

31 December 2006

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Total
Balances with central banks	577,841	21,349	13,949	30,593	8,667	13,984	5,337	312	672,032
Due from banks and other financial institutions	144,518	6,719	5,229	4,040	227	993	720	7,008	169,454
Financial assets held for trading	19,211	4	—	—	—	—	—	—	19,215
Financial assets designated at fair value through profit or loss	—	—	—	—	—	—	—	173	173
Derivative financial assets	9,340	143	160	80	44	42	177	378	10,364
Reverse repurchase agreements	9,029	150	3,700	20,364	1,634	30	4,311	—	39,218
Loans and advances to customers	258,256	892,018	500,845	623,163	453,688	515,338	179,660	31,464	3,454,432
Financial investments									
— Receivables	1,100,164	—	—	—	—	—	5,999	—	1,106,163
— Held-to-maturity debt securities	1,124,350	38,007	19,371	24,966	3,077	2,651	16,032	7,757	1,236,211
— Available-for-sale debt securities	434,995	20,525	6,966	9,229	1,345	1,874	786	12,544	488,264
Other assets	19,257	2,965	2,131	4,443	3,525	4,153	970	647	38,091
	3,696,961	981,880	552,351	716,878	472,207	539,065	213,992	60,283	7,233,617
Credit commitments	124,432	158,164	68,919	159,544	45,045	50,603	12,270	20,297	639,274
	3,821,393	1,140,044	621,270	876,422	517,252	589,668	226,262	80,580	7,872,891

(In RMB millions, unless otherwise stated)

By industry segment

The credit risk exposures of the Group and of the Bank mainly comprise loans and advances to customers, investments in securities and due from banks and other financial institutions. Details of the composition of the Group's and of the Bank's investments in securities are set out in note 48(a)(iv) to the financial statements. The composition of the Group's and of the Bank's gross loans and advances to customers by industry is analysed as follows:

	Group		Bank	
	2007	2006	2007	2006
Manufacturing	758,655	683,286	744,381	677,209
Transportation and logistics	612,849	536,624	603,180	526,424
Power generation and supply	408,220	346,499	407,574	345,896
Retail, wholesale and catering	201,018	163,685	189,054	151,067
Leasing and commercial services	171,511	108,795	161,357	108,165
Property development	329,664	256,184	310,136	237,475
Water, environment and public utility management	231,309	207,244	230,343	206,982
Education, hospitals and other non-profit making organisations	70,132	72,356	69,937	72,356
Construction	64,334	53,745	54,298	49,982
Others	209,825	202,498	179,527	187,152
Subtotal for corporate loans	3,057,517	2,630,916	2,949,787	2,562,708
Personal mortgage and business loans	664,171	498,194	653,047	492,580
Others	99,436	89,699	99,316	83,575
Subtotal for personal loans	763,607	587,893	752,363	576,155
Discounted bills	252,105	412,362	252,103	412,313
	4,073,229	3,631,171	3,954,253	3,551,176

(iii) Loans and advances to customers

The total credit risk exposures of loans and advances to customers are summarised as follows:

	Group		Bank	
	2007	2006	2007	2006
Neither past due nor impaired	3,917,290	3,441,188	3,800,326	3,364,091
Past due but not impaired	44,165	52,238	42,787	50,249
Impaired	111,774	137,745	111,140	136,836
	4,073,229	3,631,171	3,954,253	3,551,176
Allowance for impairment losses	(115,687)	(97,193)	(115,331)	(96,744)
	3,957,542	3,533,978	3,838,922	3,454,432

(In RMB millions, unless otherwise stated)

Neither past due nor impaired

The loans and advances to customers of the Group and of the Bank that are neither past due nor impaired are classified as "Pass" or "Special mention" under the 5-tier loan classification system maintained by the Group. Management of the Group considers that these loans are exposed to normal business risk and there is no identifiable objective evidence of impairment for these loans which may incur losses to the Group at the balance sheet date.

The following tables present each type of loans and advances to customers which are neither past due nor impaired as at balance sheet date:

Group

	31 December 2007			31 December 2006		
	Pass	Special mention	Total	Pass	Special mention	Total
Unsecured loans	1,118,366	18,224	1,136,590	838,466	23,068	861,534
Guaranteed loans	724,808	55,695	780,503	655,653	82,482	738,135
Loans secured by mortgages	1,334,705	97,713	1,432,418	994,676	144,208	1,138,884
Pledged loans	540,474	27,305	567,779	674,719	27,916	702,635
	3,718,353	198,937	3,917,290	3,163,514	277,674	3,441,188

Bank

	31 December 2007			31 December 2006		
	Pass	Special mention	Total	Pass	Special mention	Total
Unsecured loans	1,056,246	17,917	1,074,163	805,569	22,942	828,511
Guaranteed loans	713,023	55,556	768,579	647,605	82,407	730,012
Loans secured by mortgages	1,295,514	96,425	1,391,939	960,487	143,059	1,103,546
Pledged loans	538,340	27,305	565,645	674,106	27,916	702,022
	3,603,123	197,203	3,800,326	3,087,767	276,324	3,364,091

Past due but not impaired

The following tables present the ageing analysis of each class of loans and advances to customers of the Group and the Bank that are subject to credit risk which are past due but not impaired as at balance sheet date:

Group

	Corporate loans		Personal loans		Total	
	2007	2006	2007	2006	2007	2006
Past due for:						
Less than one month	5,734	7,315	26,309	19,219	32,043	26,534
One to two months	2,364	2,280	4,073	5,322	6,437	7,602
Two to three months	680	2,062	4,595	4,948	5,275	7,010
Over three months	410	11,092	—	—	410	11,092
Total	9,188	22,749	34,977	29,489	44,165	52,238
Fair value of collaterals held	18,531	25,419	69,696	72,685	88,227	98,104

(In RMB millions, unless otherwise stated)

Bank

	Corporate loans		Personal loans		Total	
	2007	2006	2007	2006	2007	2006
Past due for:						
Less than one month	4,794	6,356	25,958	18,624	30,752	24,980
One to two months	2,322	2,253	4,057	5,272	6,379	7,525
Two to three months	663	2,034	4,588	4,898	5,251	6,932
Over three months	405	10,812	—	—	405	10,812
Total	8,184	21,455	34,603	28,794	42,787	50,249
Fair value of collaterals held	14,470	25,048	69,325	71,998	83,795	97,046

Impaired

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

The fair value of collaterals that the Group and the Bank hold relating to loans individually determined to be impaired at 31 December 2007 amounted to RMB27,846 million (2006: RMB41,370 million) and RMB26,546 million (2006: RMB40,274 million), respectively. The collateral consists of land and properties, equipment and others.

Renegotiated loans and advances to customers

The Group has formulated a set of loans restructuring policy to maximise the collectibiliy of loans and manage customer relationships.

The carrying amount of renegotiated loans and advances to customers is as follows:

	Group		Bank	
	2007	2006	2007	2006
Renegotiated loans and advances to customers	38,381	59,592	38,273	59,529
Impaired loans and advances to customers included in above	34,196	57,108	34,087	57,045

Collateral repossessed

During the year, the Group took possession of collaterals held as security with carrying amount of RMB9,517 million (2006: RMB9,584 million). These collaterals mainly comprise land and buildings and equipments.

(In RMB millions, unless otherwise stated)

(iv) Debt securities

The total credit risk exposures of debt securities are summarised as follows:

	Group		Bank	
	2007	2006	2007	2006
Neither past due nor impaired	3,094,686	2,855,321	3,083,914	2,850,026
Impaired (i)				
Held-to-maturity debt securities	824	39	820	39
Available-for-sale debt securities (ii)	5,500	—	5,427	—
	3,101,010	2,855,360	3,090,161	2,850,065
Allowance for impairment losses	(149)	(39)	(146)	(39)
	3,100,861	2,855,321	3,090,015	2,850,026

(i) The impaired debt securities are mainly issued by public sector entities, corporate entities, banks and other financial institutions, which are all individually assessed to be impaired.

(ii) Impaired available-for-sale debt securities are measured at fair value, with any recognised impairment loss being deducted from the carrying amount directly.

Neither past due nor impaired

The credit risk of debt securities is mainly arising from the risk that the issuer might default on a payment or go into liquidation. Debt securities by different types of issuers are generally subject to different degrees of credit risk.

The following table presents an analysis of debt securities by types of issuers and investments, which are neither past due nor impaired:

Group

31 December 2007

	Receivables	Held-to-maturity investments	Available-for-sale investments	Investments at fair value through profit or loss	Total
Governments and central banks	851,771	794,464	278,442	4,940	1,929,617
Policy banks	47,000	419,384	81,577	6,350	554,311
Public sector entities	—	29,386	53,665	2,237	85,288
Banks and other financial institutions	312,996	68,998	83,025	1,375	466,394
Corporate entities	—	17,178	22,514	19,384	59,076
	1,211,767	1,329,410	519,223	34,286	3,094,686

(In RMB millions, unless otherwise stated)

31 December 2006

	Receivables	Held-to-maturity investments	Available-for-sale investments	Investments at fair value through profit or loss	Total
Governments and central banks	746,168	847,186	260,383	2,424	1,856,161
Policy banks	46,999	308,649	70,084	2,379	428,111
Public sector entities	—	18,663	61,370	98	80,131
Banks and other financial institutions	312,996	42,675	77,031	908	433,610
Corporate entities	—	11,764	30,240	15,304	57,308
	1,106,163	1,228,937	499,108	21,113	2,855,321

Bank

31 December 2007

	Receivables	Held-to-maturity investments	Available-for-sale investments	Investments at fair value through profit or loss	Total
Governments and central banks	851,771	792,382	277,902	4,744	1,926,799
Policy banks	47,000	419,384	81,556	6,350	554,290
Public sector entities	—	29,279	52,905	2,033	84,217
Banks and other financial institutions	312,996	76,291	77,665	923	467,875
Corporate entities	—	16,498	15,658	18,577	50,733
	1,211,767	1,333,834	505,686	32,627	3,083,914

31 December 2006

	Receivables	Held-to-maturity investments	Available-for-sale investments	Investments at fair value through profit or loss	Total
Governments and central banks	746,168	846,985	259,976	2,215	1,855,344
Policy banks	46,999	308,649	70,061	2,379	428,088
Public sector entities	—	18,482	60,603	—	79,085
Banks and other financial institutions	312,996	51,012	72,879	423	437,310
Corporate entities	—	11,083	24,745	14,371	50,199
	1,106,163	1,236,211	488,264	19,388	2,850,026

(In RMB millions, unless otherwise stated)

(b) Liquidity risk

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

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

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

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

31 December 2007

	Overdue/ repayable on demand	Less than one month	One month to three months	Three months to one year	One to five years	More than five years	Undated	Total
Assets:								
Cash and balances with central banks	122,451	—	—	—	—	—	1,019,895	1,142,346
Due from banks and other financial institutions (i)	19,031	164,672	42,928	42,843	6,164	—	—	275,638
Financial assets held for trading	—	1,473	6,204	18,712	4,089	1,023	35	31,536
Financial assets designated at fair value through profit or loss	—	94	107	21	1,308	1,255	—	2,785
Derivative financial assets	—	12,657	2,733	5,116	740	1,523	—	22,769
Loans and advances to customers	5,951	199,793	364,512	1,182,578	1,057,925	1,113,118	33,665	3,957,542
Investments								
— Receivables	—	—	—	—	1,099,767	112,000	—	1,211,767
— Held-to-maturity debt securities	—	94,418	79,300	154,138	653,408	348,821	—	1,330,085
— Available-for-sale investments	—	3,158	23,339	211,282	151,168	135,776	6,432	531,155
— Investments in associates	—	—	—	—	—	—	172	172
Property and equipment	—	—	—	—	—	—	80,266	80,266
Others	20,978	9,405	9,030	21,418	8,039	735	28,046	97,651
Total assets	168,411	485,670	528,153	1,636,108	2,982,608	1,714,251	1,168,511	8,683,712
Liabilities:								
Financial liabilities designated at fair value through profit or loss	2	852	1,632	5,764	5,902	1,438	—	15,590
Derivative financial liabilities	—	516	733	2,046	2,225	1,607	—	7,127
Due to banks and other financial institutions (ii)	683,288	289,317	17,953	7,839	285	—	—	998,682
Due to customers (iii)	3,817,479	552,438	546,154	1,506,416	472,955	3,533	—	6,898,975
Subordinated bonds	—	—	—	—	—	35,000	—	35,000
Others	93,727	5,104	14,131	49,766	13,933	8,001	—	184,662
Total liabilities	4,594,496	848,227	580,603	1,571,831	495,300	49,579	—	8,140,036
Net liquidity gap	(4,426,085)	(362,557)	(52,450)	64,277	2,487,308	1,664,672	1,168,511	543,676

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(iii) Includes certificates of deposit

(In RMB millions, unless otherwise stated)

(i) The maturity analysis of assets and liabilities of the Group at the balance sheet date is as follows: (continued)

31 December 2006

	Overdue/ repayable on demand	Less than one month	One month to three months	Three months to one year	One to five years	More than five years	Undated	Total
Assets:								
Cash and balances with central banks	106,150	—	—	—	—	—	597,507	703,657
Due from banks and other financial institutions (i)	5,698	131,609	53,611	52,356	2,450	—	—	245,724
Financial assets held for trading	—	2,164	3,654	12,263	1,143	121	43	19,388
Financial assets designated at fair value through profit or loss	—	—	—	207	517	1,044	—	1,768
Derivative financial assets	—	109	197	233	9,157	843	—	10,539
Loans and advances to customers	45,600	177,053	393,317	1,086,543	885,149	859,394	86,922	3,533,978
Investments								
— Receivables	—	—	—	—	994,163	112,000	—	1,106,163
— Held-to-maturity debt securities	—	67,831	113,772	462,029	376,922	208,383	—	1,228,937
— Available-for-sale investments	—	19,731	66,094	120,570	137,802	154,911	5,434	504,542
— Investments in associates	—	—	—	—	—	—	127	127
Property and equipment	—	—	—	—	—	—	82,403	82,403
Others	10,343	428	9,237	13,995	1,460	2	36,060	71,525
Total assets	167,791	398,925	639,882	1,748,196	2,408,763	1,336,698	808,496	7,508,751
Liabilities:								
Financial liabilities designated at fair value through profit or loss	—	55	5,069	17,916	7,371	2,320	—	32,731
Derivative financial liabilities	—	157	211	398	896	951	—	2,613
Due to banks and other financial institutions (ii)	347,465	84,682	6,658	9,737	81	305	—	448,928
Due to customers (iii)	3,190,873	558,260	544,932	1,455,192	577,497	1,343	—	6,328,097
Subordinated bonds	—	—	—	—	—	35,000	—	35,000
Others	141,463	7,537	11,242	23,195	6,858	86	—	190,381
Total liabilities	3,679,801	650,691	568,112	1,506,438	592,703	40,005	—	7,037,750
Net liquidity gap	(3,512,010)	(251,766)	71,770	241,758	1,816,060	1,296,693	808,496	471,001

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(iii) Includes certificates of deposit

(In RMB millions, unless otherwise stated)

(i) The maturity analysis of assets and liabilities of the Bank at the balance sheet date is as follows: (continued)

31 December 2007

	Overdue/ repayable on demand	Less than one month	One month to three months	Three months to one year	One to five years	More than five years	Undated	Total
Assets:								
Cash and balances with central banks	121,692	—	—	—	—	—	1,019,769	1,141,461
Due from banks and other financial institutions (i)	19,164	134,372	45,964	45,213	6,164	—	—	250,877
Financial assets held for trading	—	1,473	6,190	18,712	4,087	1,023	—	31,485
Financial assets designated at fair value through profit or loss	—	—	107	21	960	54	—	1,142
Derivative financial assets	—	12,572	2,665	4,734	907	1,480	—	22,358
Loans and advances to customers	4,258	193,384	352,499	1,163,163	1,019,474	1,072,546	33,598	3,838,922
Investments								
— Receivables	—	—	—	—	1,099,767	112,000	—	1,211,767
— Held-to-maturity debt securities	—	93,616	78,508	153,153	655,561	353,670	—	1,334,508
— Available-for-sale investments	—	2,669	23,245	209,708	142,337	133,154	4,116	515,229
— Investments in subsidiaries	—	—	—	—	—	—	12,371	12,371
Property and equipment	—	—	—	—	—	—	79,986	79,986
Others	18,905	8,880	8,606	21,363	8,025	730	25,755	92,264
Total assets	164,019	446,966	517,784	1,616,067	2,937,282	1,674,657	1,175,595	8,532,370
Liabilities:								
Financial liabilities designated at fair value through profit or loss	2	811	1,584	5,423	1,020	1,438	—	10,278
Derivative financial liabilities	—	409	638	1,662	2,335	1,548	—	6,592
Due to banks and other financial institutions (ii)	683,919	288,628	12,695	7,517	1,452	367	—	994,578
Due to customers	3,795,099	467,953	526,403	1,504,075	472,553	3,523	—	6,769,606
Subordinated bonds	—	—	—	—	—	35,000	—	35,000
Others	91,056	4,417	13,499	49,564	13,851	7,910	—	180,297
Total liabilities	4,570,076	762,218	554,819	1,568,241	491,211	49,786	—	7,996,351
Net liquidity gap	(4,406,057)	(315,252)	(37,035)	47,826	2,446,071	1,624,871	1,175,595	536,019

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(In RMB millions, unless otherwise stated)

(i) The maturity analysis of assets and liabilities of the Bank at the balance sheet date is as follows: (continued)

31 December 2006

	Overdue/ repayable on demand	Less than one month	One month to three months	Three months to one year	One to five years	More than five years	Undated	Total
Assets:								
Cash and balances with central banks	105,745	—	—	—	—	—	597,500	703,245
Due from banks and other financial institutions (i)	12,556	92,906	48,404	52,356	2,450	—	—	208,672
Financial assets held for trading	—	2,164	3,654	12,263	1,013	121	—	19,215
Financial assets designated at fair value through profit or loss	—	—	—	—	173	—	—	173
Derivative financial assets	—	96	181	201	9,105	781	—	10,364
Loans and advances to customers	41,077	173,709	388,111	1,077,351	853,090	835,531	85,563	3,454,432
Investments								
— Receivables	—	—	—	—	994,163	112,000	—	1,106,163
— Held-to-maturity debt securities	—	66,776	113,109	464,077	377,700	214,549	—	1,236,211
— Available-for-sale investments	—	19,668	65,816	119,235	131,116	152,429	4,375	492,639
— Investments in subsidiaries	—	—	—	—	—	—	7,260	7,260
— Investments in an associate	—	—	—	—	—	—	74	74
Property and equipment	—	—	—	—	—	—	82,123	82,123
Others	8,714	374	8,905	13,894	1,429	2	34,759	68,077
Total assets	168,092	355,693	628,180	1,739,377	2,370,239	1,315,413	811,654	7,388,648
Liabilities:								
Financial liabilities designated at fair value through profit or loss	—	—	4,889	14,759	2,664	2,320	—	24,632
Derivative financial liabilities	—	124	203	363	746	946	—	2,382
Due to banks and other financial institutions (ii)	347,656	83,009	6,406	10,235	81	305	—	447,692
Due to customers	3,168,111	557,527	471,123	1,451,596	577,081	1,333	—	6,226,771
Subordinated bonds	—	—	—	—	—	35,000	—	35,000
Others	139,382	7,479	11,024	22,854	6,757	85	—	187,581
Total liabilities	3,655,149	648,139	493,645	1,499,807	587,329	39,989	—	6,924,058
Net liquidity gap	(3,487,057)	(292,446)	134,535	239,570	1,782,910	1,275,424	811,654	464,590

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(In RMB millions, unless otherwise stated)

(ii) Maturity analysis of contractual undiscounted cash flows

The tables below summarise the maturity profile of the Group and of the Bank's financial instruments based on the contractual undiscounted cash flows. The balances of some accounts in the below tables will be different to the balances on the balance sheet as the tables incorporate all cash flows relating to both principal and interest. The Group's expected cash flows on these instruments may vary significantly from this analysis. For example: demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

Group

31 December 2007

	Overdue/ repayable on demand	Less than one month	One month to three months	Three months to one year	One to five years	More than five years	Undated	Total
Non-derivative cash flows:								
Assets:								
Cash and balances with central banks	122,451	—	—	—	—	—	1,019,895	1,142,346
Due from banks and other financial institutions (i)	19,221	165,469	43,454	44,240	6,393	—	—	278,777
Financial assets held for trading	—	1,483	6,304	19,055	4,759	1,181	35	32,817
Financial assets designated at fair value through profit or loss	—	105	135	114	1,637	3,250	—	5,241
Loans and advances to customers	7,357	228,481	406,873	1,345,145	1,492,964	1,805,204	92,609	5,378,633
Investments	—	101,078	116,780	438,417	2,170,744	797,928	7,052	3,631,999
Others	19,413	—	—	—	—	—	—	19,413
	168,442	496,616	573,546	1,846,971	3,676,497	2,607,563	1,119,591	10,489,226

(i) Includes reverse repurchase agreements

31 December 2007

	Overdue/ repayable on demand	Less than one month	One month to three months	Three months to one year	One to five years	More than five years	Undated	Total
Liabilities:								
Financial liabilities designated at fair value through profit or loss	2	863	1,761	6,015	6,416	1,715	—	16,772
Due to banks and other financial institutions (i)	683,288	289,789	18,129	7,994	301	—	—	999,501
Due to customers (ii)	3,817,479	562,271	555,877	1,533,233	489,789	3,847	—	6,962,496
Subordinated bonds	—	—	183	1,077	5,039	41,230	—	47,529
Others	60,140	244	7,687	36,373	9,258	7,879	—	121,581
	4,560,909	853,167	583,637	1,584,692	510,803	54,671	—	8,147,879
Derivative cash flows:								
Derivative financial instruments settled on net basis	—	—	(8)	—	(38)	(243)	—	(289)
Total inflow	4	117,026	121,842	207,256	25,917	20,927	44	493,016
Total outflow	(4)	(114,602)	(118,311)	(198,871)	(25,694)	(21,609)	(13)	(479,104)
Derivative financial instruments settled on gross basis	—	2,424	3,531	8,385	223	(682)	31	13,912

(i) Includes repurchase agreements

(ii) Includes certificates of deposit

(In RMB millions, unless otherwise stated)

31 December 2006

	Overdue/ repayable on demand	Less than one month	One month to three months	Three months to one year	One to five years	More than five years	Undated	Total
Non-derivative cash flows:								
Assets:								
Cash and balances with central banks	106,150	—	—	—	—	—	597,507	703,657
Due from banks and other financial institutions (i)	5,874	132,747	54,317	53,325	2,620	—	—	248,883
Financial assets held for trading	—	2,182	3,699	12,676	1,815	2,277	43	22,692
Financial assets designated at fair value through profit or loss	—	—	—	210	546	1,074	—	1,830
Loans and advances to customers	47,492	196,133	450,294	1,223,940	1,196,038	1,354,014	143,075	4,610,986
Investments	—	88,523	184,852	638,388	1,708,501	687,948	6,028	3,314,240
Others	9,355	—	—	—	—	—	5,890	15,245
	168,871	419,585	693,162	1,928,539	2,909,520	2,045,313	752,543	8,917,533

(i) Includes reverse repurchase agreements

31 December 2006

	Overdue/ repayable on demand	Less than one month	One month to three months	Three months to one year	One to five years	More than five years	Undated	Total
Liabilities:								
Financial liabilities designated at fair value through profit or loss	—	57	5,222	18,375	9,811	2,763	—	36,228
Due to banks and other financial institutions (i)	347,465	85,110	6,726	9,841	109	311	—	449,562
Due to customers (ii)	3,190,873	567,477	554,335	1,482,945	598,255	1,452	—	6,395,337
Subordinated bonds	—	—	183	1,077	5,039	42,490	—	48,789
Others	102,592	5,800	7,820	16,822	4,973	62	—	138,069
	3,640,930	658,444	574,286	1,529,060	618,187	47,078	—	7,067,985
Derivative cash flows:								
Derivative financial instruments settled on net basis	—	(1)	(39)	(122)	(464)	(335)	—	(961)
Total inflow	—	92,287	27,326	110,326	106,032	1,893	—	337,864
Total outflow	—	(92,324)	(27,282)	(110,001)	(100,667)	(1,994)	(6)	(332,274)
Derivative financial instruments settled on gross basis	—	(37)	44	325	5,365	(101)	(6)	5,590

(i) Includes repurchase agreements

(ii) Includes certificates of deposit

(In RMB millions, unless otherwise stated)

Bank

31 December 2007

	Overdue/ repayable on demand	Less than one month	One month to three months	Three months to one year	One to five years	More than five years	Undated	Total
Non-derivative cash flow:								
Assets:								
Cash and balances with central banks	121,692	—	—	—	—	—	1,019,769	1,141,461
Due from banks and other financial institutions (i)	19,354	135,149	46,630	46,736	6,393	—	—	254,262
Financial assets held for trading	—	1,483	6,304	19,055	4,759	1,181	—	32,782
Financial assets designated at fair value through profit or loss	—	4	115	45	1,027	56	—	1,247
Loans and advances to customers	5,542	221,798	393,169	1,321,916	1,446,548	1,779,378	92,395	5,260,746
Investments	—	98,759	116,647	436,244	2,162,981	801,494	16,917	3,633,042
Others	16,744	—	—	—	—	—	—	16,744
	163,332	457,193	562,865	1,823,996	3,621,708	2,582,109	1,129,081	10,340,284

(i) Includes reverse repurchase agreements

31 December 2007

	Overdue/ repayable on demand	Less than one month	One month to three months	Three months to one year	One to five years	More than five years	Undated	Total
Liabilities:								
Financial liabilities designated at fair value through profit or loss	2	863	1,760	6,015	3,273	1,715	—	13,628
Due to banks and other financial institutions (i)	683,919	289,115	12,898	7,783	1,679	444	—	995,838
Due to customers	3,795,099	476,283	535,773	1,530,848	489,376	3,837	—	6,831,216
Subordinated bonds	—	—	183	1,077	5,039	41,230	—	47,529
Others	57,209	244	7,666	36,150	9,233	7,879	—	118,381
	4,536,229	766,505	558,280	1,581,873	508,600	55,105	—	8,006,592
Derivative cash flows:								
Derivative financial instruments settled on net basis	—	—	(8)	—	(11)	(37)	—	(56)
Total inflow	—	79,828	97,732	168,377	19,926	20,124	44	386,031
Total outflow	—	(77,443)	(94,279)	(159,948)	(19,526)	(20,797)	(13)	(372,006)
Derivative financial instruments settled on gross basis	—	2,385	3,453	8,429	400	(673)	31	14,025

(i) Includes repurchase agreements

(In RMB millions, unless otherwise stated)

31 December 2006

	Overdue/ repayable on demand	Less than one month	One month to three months	Three months to one year	One to five years	More than five years	Undated	Total
Non-derivative cash flow:								
Assets:								
Cash and balances with central banks	105,745	—	—	—	—	—	597,500	703,245
Due from banks and other financial institutions (i)	12,732	93,620	48,888	53,002	2,481	—	—	210,723
Financial assets held for trading	—	2,173	3,690	12,583	1,343	164	—	19,953
Financial assets designated at fair value through profit or loss	—	—	—	—	185	—	—	185
Loans and advances to customers	42,178	192,479	444,451	1,212,936	1,163,026	1,329,865	141,716	4,526,651
Investments	—	87,705	182,427	639,489	1,701,991	698,289	12,176	3,322,077
Others	8,094	—	—	—	—	—	5,881	13,975
	168,749	375,977	679,456	1,918,010	2,869,026	2,028,318	757,273	8,796,809

(i) Includes reverse repurchase agreements

31 December 2006

	Overdue/ repayable on demand	Less than one month	One month to three months	Three months to one year	One to five years	More than five years	Undated	Total
Liabilities:								
Financial liabilities designated at fair value through profit or loss	—	—	5,037	15,137	3,546	2,763	—	26,483
Due to banks and other financial institutions (i)	347,656	83,453	6,480	10,351	111	312	—	448,363
Due to customers	3,168,111	567,309	478,036	1,475,024	595,903	1,756	—	6,286,139
Subordinated bonds	—	—	183	1,077	5,039	42,490	—	48,789
Others	89,139	5,039	6,794	14,616	4,321	54	—	119,963
	3,604,906	655,801	496,530	1,516,205	608,920	47,375	—	6,929,737
Derivative cash flows:								
Derivative financial instruments settled on net basis	—	(1)	(39)	(122)	(464)	(335)	—	(961)
Total inflow	—	43,670	18,359	88,708	101,822	1,151	—	253,710
Total outflow	—	(43,681)	(18,303)	(88,294)	(96,109)	(1,075)	(6)	(247,468)
Derivative financial instruments settled on gross basis	—	(11)	56	414	5,713	76	(6)	6,242

(i) Includes repurchase agreements

(In RMB millions, unless otherwise stated)

(iii) Contractual expiry by maturity of the commitments

The management expected that not all of the commitments will be drawn before expiry of the commitments.

Group

	Overdue/ repayable on demand	Less than one month	One month to three months	Three months to one year	One to five years	More than five years	Undated	Total
31 December 2007								
Off-balance sheet credit commitments	578,726	32,094	68,907	109,950	10	—	—	789,687
31 December 2006								
Off-balance sheet credit commitments	523,353	27,124	67,884	76,128	5	—	—	694,494

Bank

	Overdue/ repayable on demand	Less than one month	One month to three months	Three months to one year	One to five years	More than five years	Undated	Total
31 December 2007								
Off-balance sheet credit commitments	488,618	32,094	68,907	105,994	10	—	—	695,623
31 December 2006								
Off-balance sheet credit commitments	468,771	27,124	67,884	75,490	5	—	—	639,274

(c) Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices. Market risk arises from both the Group's trading and non-trading business.

The Group is exposed to primarily structural interest rate risk arising from commercial banking and position risk arising from treasury transactions. Interest rate risk is inherent in many of its businesses and largely arises from mismatches between the re-pricing dates of assets and liabilities.

The Group's foreign exchange exposure mainly comprises exposures from the mismatch of foreign exchange assets and liabilities, and off balance sheet foreign exchange position arisen from derivative transactions.

The Group considers the market risk arising from commodity or stock prices in respect of its investment portfolios as immaterial.

Sensitivity analysis, interest rate gap analysis and foreign exchange risk concentration analysis are the major market risk management tools used by the Group.

(In RMB millions, unless otherwise stated)

(i) Currency risk

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

The exchange rate of RMB to US$ is under a managed-floating exchange rate system. The exchange rate of RMB to US$ has gradually risen over the past two years. The HK$ exchange rate has been pegged to the US$ and therefore the exchange rate of RMB to HK$ has fluctuated in line with the changes in the exchange rate of RMB to US$.

The Group manages its currency risk through various means including entering into hedging activities that are available to the Group.

The tables below indicate sensitivity analysis of exchange rate changes of the currencies to which the Group and the Bank had significant exposure on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the RMB, with all other variables held constant, on profit before tax and equity. A negative amount in the table reflects a potential net reduction in profit before tax or equity, while a positive amount reflects a potential net increase.

This effect, however, is based on the assumption that the Group's and the Bank's foreign exchange exposure as at year end are kept unchanged and, therefore, has not incorporated actions that would be taken by the Group or the Bank to mitigate the adverse impact of this foreign exchange risk.

31 December 2007

Currency	Change in currency rate in %	Effect on profit before tax		Effect on equity	
		Group	Bank	Group	Bank
US$	-1%	(999)	(813)	(126)	27
HK$	-1%	151	(51)	24	(116)

31 December 2006

Currency	Change in currency rate in %	Effect on profit before tax		Effect on equity	
		Group	Bank	Group	Bank
US$	-1%	(889)	(742)	(29)	46
HK$	-1%	(161)	(158)	(25)	(97)

While the table above indicates the effect on profit before tax and equity of 1% depreciation of US$ and HK$, there will be an opposite effect with the same amount if the currencies appreciate by the same percentage.

(In RMB millions, unless otherwise stated)

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

Group

31 December 2007

	RMB	US$	HK$	Others	Total
Assets:					
Cash and balances with central banks	1,130,381	7,372	2,557	2,036	1,142,346
Due from banks and other financial institutions (i)	102,442	159,612	4,789	8,795	275,638
Financial assets held for trading	31,415	85	36	—	31,536
Financial assets designated at fair value though profit or loss	—	1,364	437	984	2,785
Derivative financial assets	19,390	1,713	167	1,499	22,769
Loans and advances to customers	3,631,681	208,576	92,172	25,113	3,957,542
Investments	2,862,544	192,208	6,626	11,801	3,073,179
Property and equipment	79,744	315	95	112	80,266
Others	86,706	4,267	3,371	3,307	97,651
Total assets	7,944,303	575,512	110,250	53,647	8,683,712
Liabilities:					
Financial liabilities designated at fair value through profit or loss	17	12,079	3,207	287	15,590
Derivative financial liabilities	1,556	3,857	228	1,486	7,127
Due to banks and other financial institutions (ii)	915,257	64,818	8,364	10,243	998,682
Due to customers (iii)	6,626,810	140,470	105,923	25,772	6,898,975
Subordinated bonds	35,000	—	—	—	35,000
Others	163,996	10,958	3,695	6,013	184,662
Total liabilities	7,742,636	232,182	121,417	43,801	8,140,036
Net position	201,667	343,330	(11,167)	9,846	543,676
Off-balance sheet credit commitments	491,832	171,763	94,051	32,041	789,687

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(iii) Includes certificates of deposit

(In RMB millions, unless otherwise stated)

Group

31 December 2006

	RMB	US$	HK$	Others	Total
Assets:					
Cash and balances with central banks	693,056	7,122	2,049	1,430	703,657
Due from banks and other financial institutions (i)	52,616	168,370	17,057	7,681	245,724
Financial assets held for trading	18,549	817	22	—	19,388
Financial assets designated at fair value though profit or loss	—	1,318	243	207	1,768
Derivative financial assets	8,844	897	240	558	10,539
Loans and advances to customers	3,300,615	127,069	87,635	18,659	3,533,978
Investments	2,622,089	197,735	7,491	12,454	2,839,769
Property and equipment	81,799	331	181	92	82,403
Others	62,941	3,491	3,602	1,491	71,525
Total assets	6,840,509	507,150	118,520	42,572	7,508,751
Liabilities:					
Financial liabilities designated at fair value through profit or loss	1,543	23,083	7,708	397	32,731
Derivative financial liabilities	121	1,625	269	598	2,613
Due to banks and other financial institutions (ii)	354,267	77,240	9,113	8,308	448,928
Due to customers (iii)	6,093,667	135,133	80,950	18,347	6,328,097
Subordinated bonds	35,000	—	—	—	35,000
Others	128,433	53,493	4,095	4,360	190,381
Total liabilities	6,613,031	290,574	102,135	32,010	7,037,750
Net position	227,478	216,576	16,385	10,562	471,001
Off-balance sheet credit commitments	454,140	156,451	56,923	26,980	694,494

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(iii) Includes certificates of deposit

(In RMB millions, unless otherwise stated)

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

Bank

31 December 2007

	RMB	US$	HK$	Others	Total
Assets:					
Cash and balances with central banks	1,130,262	7,338	2,363	1,498	1,141,461
Due from banks and other financial institutions (i)	105,056	129,779	8,360	7,682	250,877
Financial assets held for trading	31,414	71	—	—	31,485
Financial assets designated at fair value though profit or loss	—	158	—	984	1,142
Derivative financial assets	19,313	1,511	86	1,448	22,358
Loans and advances to customers	3,628,462	169,217	22,091	19,152	3,838,922
Investments	2,864,324	190,577	10,279	8,695	3,073,875
Property and equipment	79,641	227	11	107	79,986
Others	86,533	3,266	104	2,361	92,264
Total assets	7,945,005	502,144	43,294	41,927	8,532,370
Liabilities:					
Financial liabilities designated at fair value through profit or loss	17	8,477	1,497	287	10,278
Derivative financial liabilities	1,909	3,205	116	1,362	6,592
Due to banks and other financial institutions (ii)	917,672	59,527	7,491	9,888	994,578
Due to customers	6,626,733	93,716	30,430	18,727	6,769,606
Subordinated bonds	35,000	—	—	—	35,000
Others	163,673	10,160	582	5,882	180,297
Total liabilities	7,745,004	175,085	40,116	36,146	7,996,351
Net position	200,001	327,059	3,178	5,781	536,019
Off-balance sheet credit commitments	491,229	158,822	14,856	30,716	695,623

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(In RMB millions, unless otherwise stated)

Bank

31 December 2006

	RMB	US$	HK$	Others	Total
Assets:					
Cash and balances with central banks	693,031	7,096	1,869	1,249	703,245
Due from banks and other financial institutions (i)	52,334	129,063	21,231	6,044	208,672
Financial assets held for trading	18,549	644	22	—	19,215
Financial assets designated at fair value though profit or loss	—	173	—	—	173
Derivative financial assets	8,809	606	87	862	10,364
Loans and advances to customers	3,300,615	109,212	29,712	14,893	3,454,432
Investments	2,621,368	201,227	9,185	10,567	2,842,347
Property and equipment	81,778	240	15	90	82,123
Others	63,109	3,735	206	1,027	68,077
Total assets	6,839,593	451,996	62,327	34,732	7,388,648
Liabilities:					
Financial liabilities designated at fair value through profit or loss	1,543	19,094	3,812	183	24,632
Derivative financial liabilities	121	1,314	129	818	2,382
Due to banks and other financial institutions (ii)	354,339	75,413	10,178	7,762	447,692
Due to customers	6,093,442	92,761	24,381	16,187	6,226,771
Subordinated bonds	35,000	—	—	—	35,000
Others	128,382	53,391	1,657	4,151	187,581
Total liabilities	6,612,827	241,973	40,157	29,101	6,924,058
Net position	226,766	210,023	22,170	5,631	464,590
Off-balance sheet credit commitments	454,130	148,288	11,589	25,267	639,274

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(In RMB millions, unless otherwise stated)

(ii) Interest rate risk

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

The Group manages its interest rate risk by:

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

A principal part of the Group's management of interest rate risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modeling). The Group aims to mitigate the impact of prospective interest rate movements which could reduce future net interest income, while balancing the cost of such hedging on the current revenue.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's and the Bank's interest income and equity.

The sensitivity of the interest income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the financial assets and financial liabilities held at year end subject to re-pricing within the coming year, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges at year end for the effects of the assumed changes in interest rates.

31 December 2007

	Group		Bank	
Change in basis points	**Sensitivity of net interest income**	**Sensitivity of equity**	**Sensitivity of net interest income**	**Sensitivity of equity**
+100 basis points	(18,160)	(9,213)	(17,906)	(9,110)
-100 basis points	18,160	9,452	17,906	9,347

31 December 2006

	Group		Bank	
Change in basis points	**Sensitivity of net interest income**	**Sensitivity of equity**	**Sensitivity of net interest income**	**Sensitivity of equity**
+100 basis points	(14,134)	(7,928)	(14,047)	(7,824)
-100 basis points	14,134	8,140	14,047	8,034

The interest rate sensitivities set out in the table above are illustrative only and are based on simplified scenarios. The figures represent the effect of the pro forma movements in net interest income and equity based on the projected yield curve scenarios and the Group's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by management to mitigate the impact of this interest rate risk. The projections above also assume that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged.

(In RMB millions, unless otherwise stated)

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

31 December 2007

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest-bearing	Total
Assets:						
Cash and balances with central banks	1,023,860	—	—	—	118,486	1,142,346
Due from banks and other financial institutions (i)	225,681	42,843	6,164	—	950	275,638
Financial assets held for trading	8,626	19,923	2,862	90	35	31,536
Financial assets designated at fair value through profit or loss	1,014	—	570	1,201	—	2,785
Derivative financial assets	—	—	—	—	22,769	22,769
Loans and advances to customers	1,510,826	2,446,716	—	—	—	3,957,542
Investments	287,056	547,357	1,750,920	481,242	6,604	3,073,179
Property and equipment	—	—	—	—	80,266	80,266
Others	—	—	—	—	97,651	97,651
Total assets	3,057,063	3,056,839	1,760,516	482,533	326,761	8,683,712
Liabilities:						
Financial liabilities designated at fair value through profit or loss	7,108	6,923	970	589	—	15,590
Derivative financial liabilities	—	—	—	—	7,127	7,127
Due to banks and other financial institutions (ii)	989,856	7,839	285	—	702	998,682
Due to customers (iii)	4,776,594	1,506,322	472,861	3,533	139,665	6,898,975
Subordinated bonds	9,000	—	13,000	13,000	—	35,000
Others	—	—	—	—	184,662	184,662
Total liabilities	5,782,558	1,521,084	487,116	17,122	332,156	8,140,036
Interest rate mismatch	(2,725,495)	1,535,755	1,273,400	465,411	N/A	N/A

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(iii) Includes certificates of deposit

(In RMB millions, unless otherwise stated)

31 December 2006

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest-bearing	Total
Assets:						
Cash and balances with central banks	617,383	—	—	—	86,274	703,657
Due from banks and other financial institutions (i)	190,918	52,356	2,450	—	—	245,724
Financial assets held for trading	5,818	12,263	1,143	121	43	19,388
Financial assets designated at fair value through profit or loss	—	207	517	1,044	—	1,768
Derivative financial assets	—	—	—	—	10,539	10,539
Loans and advances to customers	1,176,901	2,357,077	—	—	—	3,533,978
Investments	344,323	714,235	1,403,026	372,624	5,561	2,839,769
Property and equipment	—	—	—	—	82,403	82,403
Others	—	—	—	—	71,525	71,525
Total assets	2,335,343	3,136,138	1,407,136	373,789	256,345	7,508,751
Liabilities:						
Financial liabilities designated at fair value through profit or loss	8,327	19,395	3,422	1,587	—	32,731
Derivative financial liabilities	—	—	—	—	2,613	2,613
Due to banks and other financial institutions (ii)	438,512	9,737	81	305	293	448,928
Due to customers (iii)	4,210,697	1,449,451	569,578	1,343	97,028	6,328,097
Subordinated bonds	9,000	—	13,000	13,000	—	35,000
Others	—	—	—	—	190,381	190,381
Total liabilities	4,666,536	1,478,583	586,081	16,235	290,315	7,037,750
Interest rate mismatch	(2,331,193)	1,657,555	821,055	357,554	N/A	N/A

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(iii) Includes certificates of deposit

(In RMB millions, unless otherwise stated)

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

31 December 2007

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest-bearing	Total
Assets:						
Cash and balances with central banks	1,023,030	—	—	—	118,431	1,141,461
Due from banks and other financial institutions (i)	199,477	45,213	6,164	—	23	250,877
Financial assets held for trading	8,613	19,923	2,859	90	—	31,485
Financial assets designated at fair value through profit or loss	920	—	222	—	—	1,142
Derivative financial assets	—	—	—	—	22,358	22,358
Loans and advances to customers	1,483,071	2,355,851	—	—	—	3,838,922
Investments	282,662	546,569	1,748,595	479,562	16,487	3,073,875
Property and equipment	—	—	—	—	79,986	79,986
Others	—	—	—	—	92,264	92,264
Total assets	2,997,773	2,967,556	1,757,840	479,652	329,549	8,532,370
Liabilities:						
Financial liabilities designated at fair value through profit or loss	3,624	5,342	723	589	—	10,278
Derivative financial liabilities	—	—	—	—	6,592	6,592
Due to banks and other financial institutions (ii)	987,298	6,993	285	—	2	994,578
Due to customers	4,654,046	1,504,076	472,553	3,522	135,409	6,769,606
Subordinated bonds	9,000	—	13,000	13,000	—	35,000
Others	—	—	—	—	180,297	180,297
Total liabilities	5,653,968	1,516,411	486,561	17,111	322,300	7,996,351
Interest rate mismatch	(2,656,195)	1,451,145	1,271,279	462,541	N/A	N/A

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(In RMB millions, unless otherwise stated)

31 December 2006

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest-bearing	Total
Assets:						
Cash and balances with central banks	617,204	—	—	—	86,041	703,245
Due from banks and other financial institutions (i)	153,866	52,356	2,450	—	—	208,672
Financial assets held for trading	5,818	12,263	1,013	121	—	19,215
Financial assets designated at fair value through profit or loss	—	—	173	—	—	173
Derivative financial assets	—	—	—	—	10,364	10,364
Loans and advances to customers	1,149,719	2,304,713	—	—	—	3,454,432
Investments	342,185	717,373	1,399,614	371,466	11,709	2,842,347
Property and equipment	—	—	—	—	82,123	82,123
Others	—	—	—	—	68,077	68,077
Total assets	2,268,792	3,086,705	1,403,250	371,587	258,314	7,388,648
Liabilities:						
Financial liabilities designated at fair value through profit or loss	4,889	15,942	2,214	1,587	—	24,632
Derivative financial liabilities	—	—	—	—	2,382	2,382
Due to banks and other financial institutions (ii)	437,071	10,235	81	305	—	447,692
Due to customers	4,115,404	1,446,788	569,560	1,333	93,686	6,226,771
Subordinated bonds	9,000	—	13,000	13,000	—	35,000
Others	—	—	—	—	187,581	187,581
Total liabilities	4,566,364	1,472,965	584,855	16,225	283,649	6,924,058
Interest rate mismatch	(2,297,572)	1,613,740	818,395	355,362	N/A	N/A

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(d) Capital management

The Group's objectives when managing capital, which is a broader concept than the "equity" on the face of balance sheet, are:

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To allocate capital in an efficient and risk based approach to optimise risk adjusted return to the shareholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management based on regulations issued by CBRC. The required information is filed with CBRC by the Group and the Bank on a consolidated basis and a solo basis biannually and quarterly, respectively.

CBRC requires each bank to maintain the capital adequacy ratio and core capital ratio not below the minimum of 8% and 4% respectively. In addition, those individual banking subsidiaries or similar financial institutions not incorporated in Mainland China are also directly regulated and supervised by their local banking supervisors.

(In RMB millions, unless otherwise stated)

The risk-weighted assets are measured according to the nature of, and reflecting an estimate of credit, market and other risks associated with, each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses.

The Group computes the capital adequacy ratios in accordance with the "Regulations Governing Capital Adequacy of Commercial Banks" and related regulations promulgated by CBRC. The requirements pursuant to these regulations may have significant differences compared to those applicable in Hong Kong and other countries.

The capital adequacy ratios and the related components of the Group as at 31 December 2006 were arrived at using the financial data and information in the statutory financial statements of the Group. The capital adequacy ratios and related components of the Group as at 31 December 2007 are computed in accordance with the statutory financial statements of the Group prepared under the Chinese Accounting Standards (2006 version) promulgated by the MOF.

The basis of calculation has changed during the year pursuant to the requirement of the "Notice from China Banking Regulatory Commission on the Relevant Issues on Calculating the Capital Adequacy Ratio After Banks and Financial Institutions Implementing <Accounting Standards for Business Enterprises>", and accordingly the 2007 ratios and figures are not comparable to the corresponding ratios and figures for 31 December 2006.

	2007	2006
Core capital adequacy ratio	10.99%	12.23%
Capital adequacy ratio	13.09%	14.05%
Components of capital base		
Core capital:		
Share capital	334,019	334,019
Reserves	148,631	125,523
Minority interests	5,305	4,537
Total core capital	487,955	464,079
Supplementary capital:		
General provisions for doubtful debts	47,979	33,645
Reserve for net change in the fair value of available-for-sale investments	—	1,005
Subordinated bonds	35,000	35,000
Other supplementary capital	11,669	—
Total supplementary capital	94,648	69,650
Total capital base before deductions	582,603	533,729
Deductions:		
Unconsolidated equity investments (i)	(3,984)	(1,729)
Goodwill (i)	(1,878)	(1,195)
Net capital base	576,741	530,805
Core capital base after deductions (i)	484,085	462,019
Risk weighted assets and market risk capital adjustment	4,405,345	3,779,170

(i) Pursuant to the relevant regulations, the core capital base after deductions was derived by applying 50% and 100% of deductions in the unconsolidated equity investments and goodwill, respectively.

(In RMB millions, unless otherwise stated)

49. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	Group		Bank	
	Carrying value	Fair value	Carrying value	Fair value
31 December 2007:				
Receivables	1,211,767	1,206,033	1,211,767	1,206,033
Held-to-maturity debt securities	1,330,085	1,309,831	1,334,508	1,314,325
Subordinated bonds	35,000	32,505	35,000	32,505
31 December 2006:				
Receivables	1,106,163	1,106,246	1,106,163	1,106,246
Held-to-maturity debt securities	1,228,937	1,233,124	1,236,211	1,240,391
Subordinated bonds	35,000	34,263	35,000	34,263

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

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

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

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

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

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

50. POST BALANCE SHEET EVENTS

Subsequent to 31 December 2007, the following significant events occurred:

(a) Acquisition of shares and warrants in ICBC (Asia) from Fortis Bank S.A./N.V. ("Fortis Bank")

On 27 December 2007, the Bank has entered into an agreement on acquiring 100,913,330 ordinary shares and 11,212,592 warrants of ICBC (Asia) from Fortis Bank at a consideration of approximately HK$1.92 billion in aggregate. The acquisition was completed on 24 January 2008, and the Bank's equity interest in ICBC (Asia) increased to approximately 71.21% thereafter.

(b) Acquisition of shares in Seng Heng Bank Limited ("Seng Heng Bank")

On 29 August 2007, the Bank has entered into an agreement on acquiring a 79.93% equity interest in Seng Heng Bank, incorporated in Macau, from Sociedade de Turismo de Diversoes de Macau, S.A. and Mr. Huen Wing Ming, Patrick at a consideration of approximately MOP4.68 billion (equivalent to approximately to RMB4.26 billion) in aggregate. The acquisition was completed on 28 January 2008.

Since the acquisition of Seng Heng Bank was effected shortly before the date of approval of these financial statements, it is not practicable to disclose further details regarding the acquisition.

(c) Acquisition of shares in Standard Bank Group Limited ("Standard Bank")

The acquisition of a 20% equity interest in Standard Bank, incorporated in the Republic of South Africa, was completed on 3 March 2008 with a consideration of Rand36,690 million (equivalent to approximately RMB33,815 million).

Since the acquisition of Standard Bank was effected shortly before the date of approval of these financial statements, it is not practicable to disclose further details regarding the acquisition.

(d) Profit appropriation

The meeting of the board of directors was held on 25 March 2008, and a final dividend of approximately RMB44,425 million, equivalent to RMB0.133 per share, was proposed in respect of the year.

51. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised IFRSs during the current year, certain comparative amounts have been adjusted to conform with the current year's presentation and to show separately comparative amounts in respect of items disclosed for the first time in 2007.

52. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2008.

(In RMB millions, unless otherwise stated)

(a) Differences between the financial statements prepared under International Financial Reporting Standards ("IFRSs") and those prepared in accordance with the Chinese Accounting Standards ("CASs") promulgated by the Ministry of Finance of the PRC (the "MOF")

A reconciliation of differences between the financial statements prepared under CASs and those prepared in accordance with IFRSs is set out below.

	2007	2006
Profit for the year attributable to equity holders of the parent company under CASs	81,256	48,819
Recognition of revaluation surplus on disposed assets	264	444
Profit for the year attributable to equity holders of the parent company under IFRSs	81,520	49,263

	2007	2006
Equity attributable to equity holders of the parent company under CASs	538,947	467,267
Reversal of revaluation surplus	(576)	(803)
Equity attributable to equity holders of the parent company under IFRSs	538,371	466,464

In the financial statements prepared under CASs, the Group performed the revaluation on certain assets (including equity investments, repossessed assets and intangible assets, etc.) pursuant to the relevant requirements, with the revaluation surplus recognised in the capital reserve. Under IFRSs, such assets were carried at cost and the revaluation surplus was reversed. Upon disposal of such assets, adjustments on recognition of revaluation surplus were reversed accordingly. In addition, for the available-for-sale equity investments included in these assets, when they meet the specific conditions to be measured at fair value under IFRSs, the adjustments on reversal of revaluation surplus were made to the investment revaluation reserve.

(b) Liquidity ratios

	2007	2006
RMB current assets to RMB current liabilities	26.83%	48.87%
Foreign currency current assets to foreign currency current liabilities	97.88%	84.75%

The liquidity ratios are calculated based on the financial information prepared in accordance with generally accepted accounting principles in the PRC.

The basis of calculation has changed during the year pursuant to the requirement of Yin Jian Fa [2006] No. 75 issued by the China Banking Regulatory Commission whereby only current assets and current liabilities due within one month are included, and accordingly the 2007 ratios are not directly comparable to the corresponding ratios for 2006.

(In RMB millions, unless otherwise stated)

(c) Foreign currency concentrations other than RMB

	US$	HK$	Others	Total
As at 31 December 2007				
Spot assets	575,197	109,983	53,542	738,722
Spot liabilities	(232,182)	(121,417)	(43,801)	(397,400)
Forward purchases	174,088	21,990	59,594	255,672
Forward sales	(319,601)	(28,073)	(26,009)	(373,683)
Net option position	(85,267)	(192)	(853)	(86,312)
Net long position	112,235	(17,709)	42,473	136,999
Net structural position	315	267	105	687
As at 31 December 2006				
Spot assets	506,727	118,226	42,491	667,444
Spot liabilities	(290,574)	(102,135)	(32,010)	(424,719)
Forward purchases	73,699	20,541	16,982	111,222
Forward sales	(105,079)	(18,280)	(21,943)	(145,302)
Net option position	(93,387)	(24)	(289)	(93,700)
Net long position	91,386	18,328	5,231	114,945
Net structural position	423	294	81	798

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority. The net structural position of the Group includes the structural positions of the Bank's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- investments in fixed assets and premises, net of depreciation charges;
- capital and statutory reserves of overseas branches; and
- investments in overseas subsidiaries and related companies.

(d) Cross-border claims

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as cross-border claims.

Cross-border claims include loans and advances to customers, balances with central banks, due from banks and other financial institutions, debt securities held for trading, financial assets designated at fair value through profit or loss, held-to-maturity debt securities and available-for-sale debt securities.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	Banks and other financial institutions	Public sector entities	Others	Total
As at 31 December 2007:				
Asia Pacific excluding Mainland China	74,696	2,011	111,659	188,366
— of which attributed to Hong Kong	15,945	880	85,559	102,384
Europe	144,065	2,457	15,528	162,050
North and South America	75,034	62,873	12,197	150,104
	293,795	67,341	139,384	500,520
As at 31 December 2006:				
Asia Pacific excluding Mainland China	103,751	1,018	78,519	183,288
— of which attributed to Hong Kong	24,570	854	68,951	94,375
Europe	124,621	123	13,067	137,811
North and South America	46,247	74,264	24,207	144,718
	274,619	75,405	115,793	465,817

(In RMB millions, unless otherwise stated)

(e) Loans and advances to customers

(i) Analysis by industry sector

31 December 2007

	Gross loans and advances to customers	Loans covered by collateral	Overdue loans and advances to customers*	Loans and advances individually assessed to be impaired	Allowance for impairment losses		
					Individually assessed	Collectively assessed	Total
Manufacturing	758,655	295,368	54,463	55,884	34,241	10,213	44,454
Transportation and logistics	612,849	191,658	8,006	6,320	3,451	8,620	12,071
Power generation and supply	408,220	91,664	6,151	5,344	2,382	5,746	8,128
Retail, wholesale and catering	201,018	97,803	16,792	16,454	9,584	2,603	12,187
Leasing and commercial services	171,511	57,412	1,607	1,374	693	2,303	2,996
Property development	329,664	229,481	9,710	8,756	4,207	5,892	10,099
Water, environment and public utility management	231,309	55,145	1,069	1,118	451	3,178	3,629
Education, hospitals and other non-profit making organisations	70,132	9,929	1,865	1,876	800	998	1,798
Construction	64,334	25,382	1,410	1,354	621	806	1,427
Others	209,825	28,907	4,004	4,575	2,514	2,340	4,854
Subtotal for corporate loans	3,057,517	1,082,749	105,077	103,055	58,944	42,699	101,643
Personal mortgage and business loans	664,171	627,874	36,941	—	—	10,401	10,401
Others	99,436	77,610	8,313	—	—	2,552	2,552
Subtotal for personal loans	763,607	705,484	45,254	—	—	12,953	12,953
Discounted bills	252,105	252,105	—	—	—	1,091	1,091
	4,073,229	2,040,338	150,331	103,055	58,944	56,743	115,687
Current market value of collaterals held against the covered portion of overdue loans and advances*							145,164
Covered portion of overdue loans and advances*							86,067
Uncovered portion of overdue loans and advances*							64,264

* Loans and advances are classified as overdue when either the principal or interest is overdue. For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue.

(In RMB millions, unless otherwise stated)

31 December 2006

	Gross loans and advances to customers	Loans covered by collateral	Overdue loans and advances to customers*	Loans and advances individually assessed to be impaired	Allowance for impairment losses		
					Individually assessed	Collectively assessed	Total
Manufacturing	683,286	223,573	73,070	69,050	32,773	7,548	40,321
Transportation and logistics	536,624	130,575	7,642	6,757	2,225	6,027	8,252
Power generation and supply	346,499	62,597	6,762	6,500	2,701	3,773	6,474
Retail, wholesale and catering	163,685	62,195	24,537	23,327	10,319	1,660	11,979
Leasing and commercial services	108,795	19,931	2,371	2,270	880	1,258	2,138
Property development	256,184	146,688	12,938	10,087	3,704	2,779	6,483
Water, environment and public utility management	207,244	59,642	1,602	1,154	490	2,400	2,890
Education, hospitals and other non-profit making organisations	72,356	5,473	2,411	2,235	860	808	1,668
Construction	53,745	16,719	1,682	1,524	670	628	1,298
Others	202,498	21,547	5,581	5,543	2,369	1,918	4,287
Subtotal for corporate loans	2,630,916	748,940	138,596	128,447	56,991	28,799	85,790
Personal mortgage and business loans	498,194	476,126	33,000	—	—	8,660	8,660
Others	89,699	52,092	7,356	—	—	2,187	2,187
Subtotal for personal loans	587,893	528,218	40,356	—	—	10,847	10,847
Discounted bills	412,362	412,362	—	—	—	556	556
	3,631,171	1,689,520	178,952	128,447	56,991	40,202	97,193
Current market value of collaterals held against the covered portion of overdue loans and advances*							143,790
Covered portion of overdue loans and advances*							90,786
Uncovered portion of overdue loans and advances *							88,166

* Loans and advances are classified as overdue when either the principal or interest is overdue. For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue.

(In RMB millions, unless otherwise stated)

The amount of new provisions charged/(reversed) to income statement, and the amount of impaired loans and advances written off during the year are set out below:

	2007		2006	
	Charge of provisions	Write-offs of impaired loans	Charge/ (reversal) of provisions	Write-offs of impaired loans
Manufacturing	12,066	4,594	12,897	5,657
Transportation and logistics	3,915	163	4,250	579
Power generation and supply	2,550	749	1,728	98
Retail, wholesale and catering	3,122	1,448	4,399	2,120
Leasing and commercial services	1,238	116	111	91
Property development	4,482	224	1,782	372
Water, environment and public utility management	935	—	1,012	—
Education, hospitals and other non-profit making organisations	405	89	634	165
Construction	347	23	(125)	101
Others	768	173	(244)	509
Subtotal for corporate loans	29,828	7,579	26,444	9,692
Personal mortgage and business loans	1,988	243	2,832	1,201
Others	710	349	673	251
Subtotal for personal loans	2,698	592	3,505	1,452
Discounted bills	535	—	65	—
	33,061	8,171	30,014	11,144

(ii) Overdue assets

Overdue loans and advances to customers

	2007	2006
Gross loans and advances to customers of the Group which have been overdue with respect to either principal or interest for periods of:		
Between 3 and 6 months	4,631	22,815
Between 6 and 12 months	10,150	16,620
Over 12 months	86,771	94,181
Total	101,552	133,616
As a percentage of total gross loans and advances to customers:		
Between 3 and 6 months	0.1%	0.6%
Between 6 and 12 months	0.3%	0.5%
Over 12 months	2.1%	2.6%
Total	2.5%	3.7%

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue.

(In RMB millions, unless otherwise stated)

(iii) Overdue and impaired loans and advances to customers by geographical segment

31 December 2007

	Overdue loans and advances to customers			Impaired loans and advances to customers		
	Gross amount	Individually assessed to be impaired	Individually assessed allowance for impairment losses	Individually assessed	Individually assessed allowance for impairment losses	Collectively assessed allowance for impairment losses
Head Office	2,410	414	284	414	344	1,369
Yangtze River Delta	15,502	8,585	5,406	10,600	6,478	14,338
Pearl River Delta	24,151	15,800	7,810	16,173	8,413	8,395
Bohai Rim	30,383	19,729	10,367	20,789	11,381	10,720
Central China	25,625	15,558	7,947	16,487	8,697	7,867
Western China	27,031	16,749	9,383	18,505	10,882	9,489
Northeastern China	22,886	18,180	11,313	19,230	12,375	4,127
Overseas and others	2,343	857	362	857	374	438
Total	150,331	95,872	52,872	103,055	58,944	56,743

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue.

31 December 2006

	Overdue loans and advances to customers			Impaired loans and advances to customers		
	Gross amount	Individually assessed to be impaired	Individually assessed allowance for impairment losses	Individually assessed	Individually assessed allowance for impairment losses	Collectively assessed allowance for impairment losses
Head Office	1,550	418	266	418	346	942
Yangtze River Delta	16,562	10,282	4,517	12,758	5,073	10,192
Pearl River Delta	30,228	18,112	6,867	19,108	6,969	5,915
Bohai Rim	35,165	22,998	8,451	24,593	9,921	7,579
Central China	25,252	17,528	6,403	19,037	7,909	5,455
Western China	33,972	21,889	9,446	23,519	11,023	6,645
Northeastern China	32,879	25,403	12,490	27,682	15,197	3,020
Overseas and others	3,344	1,182	495	1,332	553	454
Total	178,952	117,812	48,935	128,447	56,991	40,202

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(In RMB millions, unless otherwise stated)

For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue.

(iv) Rescheduled loans and advances to customers

	2007		2006	
		% of total loans and advances		% of total loans and advances
Rescheduled loans and advances	38,381	0.9%	59,592	1.6%
Less: Rescheduled loans and advances overdue more than three months	28,765	0.7%	48,540	1.3%
Rescheduled loans and advances overdue less than three months	9,616	0.2%	11,052	0.3%

(f) Overdue placements with banks and other financial institutions

	2007	2006
Gross placements with banks and other financial institutions of the Group which have been overdue with respect to either principal or interest for periods of:		
Over 12 months	203	213
As a percentage of total gross placements with banks and other financial institutions:		
Over 12 months	0.1%	0.1%

(g) Non-bank Mainland China Exposures

	2007	2006
On-balance sheet exposure	5,534,299	4,437,242
Off-balance sheet exposure	669,115	615,491
Total	6,203,414	5,052,733
Individually assessed impairment losses	58,645	56,483

Note: Save as disclosed above, other non-bank Mainland China exposures are considered insignificant to the Group.

List of Domestic and Overseas Branches and Offices

DOMESTIC INSTITUTIONS

ANHUI PROVINCIAL BRANCH

Address: No. 189 Wuhu Road, Hefei City, Anhui Province, China
Postcode: 230001
Tel: 0551-2869178/2868110
Fax: 0551-2868077

BEIJING MUNICIPAL BRANCH

Address: Tower B, Tianyin Mansion, No. 2 Fuxingmen South Street, Xicheng District, Beijing, China
Postcode: 100031
Tel: 010-66410579
Fax: 010-66410579

CHONGQING MUNICIPAL BRANCH

Address: No. 9 Jiangnan Road, Nan'an District, Chongqing, China
Postcode: 400060
Tel: 023-62918002/62918047
Fax: 023-62918059

DALIAN MUNICIPAL BRANCH

Address: No. 5 Zhongshan Square, Dalian City, Liaoning Province, China
Postcode: 116001
Tel: 0411-82378888/82819593
Fax: 0411-82808377

FUJIAN PROVINCIAL BRANCH

Address: No. 108 Gutian Road, Fuzhou City, Fujian Province, China
Postcode: 350005
Tel: 0591-88087097/88087008
Fax: 0591-83353905

GANSU PROVINCIAL BRANCH

Address: No. 408 Qingyang Road, Lanzhou City, Gansu Province, China
Postcode: 730030
Tel: 0931-8432498/8435166
Fax: 0931-8435166

GUANGDONG PROVINCIAL BRANCH

Address: No. 123 Yanjiangxi Road, Guangzhou City, Guangdong Province, China
Postcode: 510120
Tel: 020-81308130/81308123
Fax: 020-81308789

GUANGXI ZHUANG NATIONALITY AUTONOMOUS REGION BRANCH

Address: No. 15-1 Jiaoyu Road, Nanning City, Guangxi, China
Postcode: 530022
Tel: 0771-5390162/5316617
Fax: 0771-5313478/2806043

GUIZHOU PROVINCIAL BRANCH

Address: No. 41 Ruijin Middle Road, Guiyang City, Guizhou Province, China
Postcode: 550003
Tel: 0851-8620000/8620018
Fax: 0851-5963911/8620017

HAINAN PROVINCIAL BRANCH

Address: Tower A, No. 3 Heping South Road, Haikou City, Hainan Province, China
Postcode: 570203
Tel: 0898-65355774/65342829
FAX: 0898-65342986

HEBEI PROVINCIAL BRANCH

Address: Tower B, Zhonghua Shangwu Tower, No. 188, Zhongshan West Road, Shijiazhuang City, Hebei Province, China
Postcode: 050051
Tel: 0311-66001888/66000001
Fax: 0311-66001889/66000002

HENAN PROVINCIAL BRANCH

Address: No. 99, Jingsan Road, Zhengzhou City, Henan Province, China
Postcode: 450011
Tel: 0371-65776888
Fax: 0371-65776889

HEILONGJIANG PROVINCIAL BRANCH

Address: No. 218 Zhongyang Road, Daoli District, Harbin City, Heilongjiang Province, China
Postcode: 150010
Tel: 0451-84698074/84698116
Fax: 0451-84698115

HUBEI PROVINCIAL BRANCH

Address: No. 372 Jiefang Road, Wuchang District, Wuhan City, Hubei Province, China
Postcode: 430060
Tel: 027-88726049/88726073
Fax: 027-88726077

HUNAN PROVINCIAL BRANCH

Address: No. 619 Furong Middle Road Yi Duan, Changsha City, Hunan Province, China
Postcode: 410011
Tel: 0731-4428833/4420000
Fax: 0731-4430039

JILIN PROVINCIAL BRANCH

Address: No. 136 Tongzhi Street, Chaoyang District, Changchun City, Jilin Province, China
Postcode: 130061
Tel: 0431-88965747/88965533
Fax: 0431-88923808

JIANGSU PROVINCIAL BRANCH

Address: No. 408 Zhongshan South Road, Nanjing City, Jiangsu Province, China
Postcode: 210006
Tel: 025-52858000/52858999
Fax: 025-52858000

JIANGXI PROVINCIAL BRANCH

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Definitions and Conventions

In this report, unless the context otherwise requires, the following terms shall have the meanings set out below:

Allianz	Allianz Group
American Express	American Express Company
Articles of Association of the Bank	The Articles of Association of Industrial and Commercial Bank of China Limited as approved by CBRC on 3 February 2007
CASs	Chinese Accounting Standards
CBRC	China Banking Regulatory Commission
CSRC	China Securities Regulatory Commission
Huijin	Central SAFE Investments Limited
Goldman Sachs	The Goldman Sachs Group, Inc.
Hong Kong Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
ICBC (Almaty)	Industrial and Commercial Bank of China (Almaty) Joint Stock Company
ICBC (Asia)	Industrial and Commercial Bank of China (Asia) Limited
ICBC (Indonesia)	PT. Bank ICBC Indonesia
ICBC (London)	ICBC (London) Limited
ICBC Luxembourg	ICBC Luxembourg S.A.
ICBC (Moscow)	ZAO Industrial Commercial Bank of China (Moscow)
ICBC Credit Suisse Asset Management	ICBC Credit Suisse Asset Management Co., Ltd
ICBC Leasing	ICBC Financial Leasing Co., Ltd
ICEA	ICEA Finance Holdings Limited
ICIC	Industrial and Commercial International Capital Limited
IFRSs	The International Financial Reporting Standards published by the International Accounting Standards Board; the International Financial Reporting Standards include the International Accounting Standards
MOF	The Ministry of Finance of the People's Republic of China
PBOC	The People's Bank of China
Securities and Futures Ordinance of Hong Kong	Securities and Futures Ordinance of the Hong Kong Special Administrative Region
SEHK	The Stock Exchange of Hong Kong Limited
Seng Heng Bank	Seng Heng Bank Limited
Shibor	Shanghai Interbank Offered Rate
SSE	Shanghai Stock Exchange
SSE Listing Rules	Shanghai Stock Exchange Listing Rules
SSF	The National Council for Social Security Fund
Standard Bank	Standard Bank Group Limited
State Administration of Taxation	State Administration of Taxation of the People's Republic of China
State Council	The State Council of the People's Republic of China
the Bank/the Group	Industrial and Commercial Bank of China Limited; or jointly Industrial and Commercial Bank of China Limited and its controlling subsidiaries

ICBC

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